TECHNOLOGIES · MANAGEMENT INC

ORIGINAL

210 N. Park Ave.
Winter Park, FL
32789

P.O. Drawer 200
Winter Park, FL
32790-0200

Tel: 407-740-8575
Fax: 407-740-0613
tmi@tminc.com

May 10, 2000
Overnight

000577-TI

Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oaks Boulevard
Tallahassee, FL 32399-0870

RE: Initial Application to Provide Interexchange Telecommunication Services
Coyote Metro, LLC d/b/a INET Local Phone Service

Dear Ms. Bayo:

Enclosed for filing are the original and six copies of the above referenced application of Coyote Metro, LLC d/b/a INET Local Phone Service to provide Interexchange Telecommunication Service in Florida. The company primarily offers bundled local and long distance services and has simultaneously filed an application and tariff for Alternative Local Exchange Service.

The company has filed for interexchange authority under a separate application and submitted the $250 filing fee at that time. Questions pertaining to this application or tariff should be directed to my attention at (407) 740-8575.

Please acknowledge receipt of this filing by returning, file-stamped, the extra copy of this cover letter in the self-addressed, stamped envelope enclosed for this purpose.

Thank you for your assistance.

Sincerely,

Monique Byrnes

Monique Byrnes
Consultant to
Coyote Metro, Inc.

cc: H. Legendre, Coyote
file: Coyote - FL
tms: fli0000

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check:

DOCUMENT NUMBER-DATE
05872 MAY 11 8
FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF COMMUNICATIONS
BUREAU OF SERVICE EVALUATION

ORIGINAL

APPLICATION FORM
for
AUTHORITY TO PROVIDE
INTEREXCHANGE TELECOMMUNICATIONS SERVICE
WITHIN THE STATE OF FLORIDA

Instructions

A. This form is used for an original application for a certificate and for approval of sale, assignment or transfer of an existing certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee or transferee (See Appendix A).

B. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.

C. Use a separate sheet for each answer which will not fit the allotted space.

D. If you have questions about completing the form, contact:

Florida Public Service Commission
Division of Communications
Bureau of Service Evaluation
2540 Shumard Oak Boulevard
Gunter Building
Tallahassee, Florida 32399-0850
(904) 413-6600

E. Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of $250.00 to:

Florida Public Service Commission
Division of Administration
2540 Shumard Oak Blvd.
Gunter Building
Tallahassee, Florida 32399-0850
(904) 413-6251

1. Select what type oı ousiness your company will be conductıng (check all that apply):

( ) **Facilities based carrier** - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.

( ) **Operator Service Provider** - company provides or plans to provide alternative operator services for IXCs; or toll operator services to call aggregator locations; or clearinghouse services to bill such calls.

( ) **Reseller** - company has or plans to have one or more switches but primarily leases the transmission facilities of other carriers. Bills its own customer base for services used.

(x) **Switchless rebiller** - company has no switch or transmission facilities but may have a billing computer. Aggregates traffic to obtain bulk discounts from underlying carrier. Rebills end users at a rate above its discount but generally below the rate end users would pay for unaggregated traffic.

( ) **Multi-Location Discount Aggregator** - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers. Then offers the resold service by enrolling unaffiliated customers.

( ) **Prepaid Debit Card Provider** - any person or entity that purchases 800 access from an underlying carrier or unaffiliated entity for use with prepaid debit card service and/or encodes the cards with personal identification numbers.

2. **This is an application for √ (check one):**

(X) **Original Authority** (New company)

( ) **Approval of transfer** (To another certificated company)

( ) **Approval of assignment of existing certificate** (To a noncertificated company)

( ) **Approval for transfer of control** (To another certificated company.)

3. Name of corporation, partnership, cooperative, joint venture or sole proprietorship:

Coyote Metro, LLC

4. Name under which the applicant will do business (fictitious name, etc.):

INET Local Phone Service

5. National address (including street name & number, post office box, city, state and zip code).

Street: 1640 S. Sepulveda, Suite 320
City, State: Los Angeles, CA
Zip Code: 90025

6. Florida address (including street name & number, post office box, city, state and zip code).

Not applicable

Street:
City, State:
Zip Code:

7. Structure of organization:

( )	Individual	( )	Corporation
( )	Foreign Corporation	( )	Foreign Partnership
( )	General Partnership	( )	Limited Partnership
(X)	Other, **Nevada Limited Liability Company**		

8. If applicant is an individual or partnership, please give name, title and address of sole proprietor or partners.

Not applicable

(a) Provide proof of compliance with the foreign partnership statute (Chapter 620.169 FS), if applicable.

(b) Indicate if the individual or any of the partners have previously been:

(1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.

(2) officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with the company, give reason why not.

9. If incorporated, please give:

(a) Proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

Corporate charter number: **M96000000255**

(b) Name and address of the company's Florida registered agent.

(c) Provide proof of compliance with the fictitious name statute (Chapter 865.09 FS), if applicable.

Fictitious name registration number: **G00027900099**

(d) Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.

No officer, director or stockholder of the Company has been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime. No officer, director or stockholder of the Company are involved in proceedings which may result in such action.

(2) officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with the company, give reason why not.

Claude Buchert, President of Applicant is also President of INET Interactive Network System, Inc., a Florida certificated long distance carrier.

10. Who will serve as liaison with the Commission in regard to (please give name, title, address and telephone number):

(a) The application:

Monique Byrnes
Consultant to Coyote Metro, LLC
Technologies Management, Inc.
P.O. Drawer 200
Winter Park, FL 32790-0200
Telephone: (407) 923-4110
Facsimile: (407) 923-4111

(b) Official Point of Contact for the ongoing operations of the company:

Stan Alvidrez, Carrier Relations Manager
Coyote Metro, LLC
1640 S. Sepulveda, Suite 320
Los Angeles, CA 90025

(c) Tariff:

Monique Byrnes
Consultant to Coyote Metro, LLC
Technologies Management, Inc.
P.O. Drawer 200
Winter Park, FL 32790-0200
Telephone: (407) 740-8575
Facsimilie: (407) 740-0613

(d) Complaints/Inquiries from customers:

Shelby Deal, Customer Service Manager
Coyote Metro, LLC
1640 S. Sepulveda, Suite 320
Los Angeles, CA 90025
800-299-4404

11. List the states in which the applicant:

(a) Has operated as an interexchange carrier.

None.

(b) Has applications pending to be certificated as an interexchange carrier.

None.

(c) Is certificated to operate as an interexchange carrier.

None.

(d) Has been denied authority to operate as an interexchange carrier and the circumstances involved.

None

(e) Has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None

(f) Has been involved in civil court proceedings with an interexchange carrier, local exchange carrier or other telecommunications entity, and the circumstances involved.

None

12. What services will the applicant offer to other certified telephone companies:

( ) Facilities ( ) Operators
( ) Billing and Collection ( ) Sales
( ) Maintenance
(X) Other: None anticipated at this time

13. Do you have a marketing program?

The company intends to market local and long distance service on a bundled basis and is currently in the process of developing its marketing program.

14. Will your marketing program: Not Applicable. See Question 13 above.

( ) Pay commissions?
( ) Offer sales franchises?
( ) Offer multi-level sales incentives?
( ) Offer other sales incentives?

15. Explain any of the offers checked in question 14 (to whom, what amount, type of franchise, etc.).

Not applicable.

16. Who will receive the bills for your service (check all that apply)?

(X)	Residential customers	(X)	Business customers
( )	PATS providers	( )	PATS station end-users
( )	Hotels & motels	( )	Hotel & motel guests
( )	Universities	( )	Univ. dormitory residents
( )	Other:(specify) ____________		

17. Please provide the following (if applicable):

(a) Will the name of your company appear on the bill for your services, and if not, who will the billed party contact to ask questions about the bill (provide name and phone number) and how is this information provided?

Yes, the Company's name will appear on customer bills.

(b) The name and address of the firm who will bill for your service.

The Company will generate its own invoices.

18. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide interexchange telecommunications service in Florida.

A. Financial Capability

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements for the most recent 3 years, including:

1. the balance sheet
2. income statement
3. statement of retained earnings

See Attachment III.

Further, **a written explanation**, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.
2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.
3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

If available, the financial statements should be audited financial statements. If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should affirm that the financial statements are true and correct.

B. Managerial capability.

See Attachment IV.

C. Technical capability.

As a reseller, Applicant relies on the technical expertise of its underlying carrier for maintenance of the network.

19. Please submit the proposed tariff under which the company plans to begin operation. Use the format required by Commission Rule 25-24.485 (example enclosed).

See Attachment II.

20. The applicant will provide the following interexchange carrier services (Check all that apply):

( ) **MTS with distance sensitive per minute rates**
- ( ) Method of access is FGA
- ( ) Method of access is FGB
- ( ) Method of access is FGD
- ( ) Method of access is 800

( ) **MTS with route specific rates per minute**
- ( ) Method of access is FGA
- ( ) Method of access is FGB
- ( ) Method of access is FGD
- ( ) Method of access is 800

(X) **MTS with statewide flat rates per minute (i.e.not distance sensitive)**
- ( ) Method of access is FGA
- ( ) Method of access is FGB
- (X) Method of access is FGD
- ( ) Method of access is 800

( ) **MTS for pay telephone service providers.**

( ) **Block of time calling plan (Reach Out Florida, Ring America, etc.)**

( ) **800 Service (Toll free)**

( ) **WATS type service (Bulk or volume discount)**
- ( ) Method of access is via dedicated facilities
- ( ) Method of access is via switched facilities

( ) **Private line services (Channel Services) (For ex. 1.544 mbps, DS-3, etc.)**

( ) **Travel service**

- ( ) Method of access is 950
- ( ) Method of access is 800

( ) **900 service**

( ) **Operator Services**

- ( ) Available to presubscribed customers
- ( ) Available to non presubscribed customers (for example, patrons of hotels, students in universities, patients in hospitals.
- ( ) Available to inmates

Services included are:

- ( ) Station assistance
- ( ) Person to person assistance
- ( ) Directory assistance
- ( ) Operator verify and interrupt
- ( ) Conference calling

21. What does the end user dial for each of the interexchange carrier services that were checked in services included (above).

For direct dial calls: 1 + destination number
For operator assisted calls: 0 +
For Travel Card calls:

22. Other: Not Applicable.

** APPLICANT ACKNOWLEDGMENT STATEMENT **

1. **REGULATORY ASSESSMENT FEE:**
I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:**
I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:**
I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:**
A non-refundable application fee of $250.00 must be submitted with the application.

5. **RECEIPT AND UNDERSTANDING OF RULES:**
I acknowledge receipt and understanding of the Florida Public Service Commission's Rules and Orders relating to my provision of interexchange telephone service in Florida. I also understand that it is my responsibility to comply with all current and future Commission requirements regarding interexchange service.

7. **ACCURACY OF APPLICATION:**
By my signature below, I the undersigned owner or officer of the named utility in the application, attest to the accuracy of the information contained in this application and associated attachments. I have read the foregoing and declare that to the best of my knowledge and belief, the information is a true and correct statement. **Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083".**

UTILITY OFFICIAL: ______________________ Signature   12/9/1999 Date

Claude Buchert, President
1640 S. Sepulveda, Suite 320
Los Angeles, CA 90025

APPENDICES:

A - CERTIFICATE TRANSFER STATEMENT
B - CUSTOMER DEPOSITS AND ADVANCE PAYMENTS
C - INTRASTATE NETWORK
D - FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES

ATTACHMENTS:

I - AUTHORITY TO OPERATE IN FLORIDA
II - PROPOSED TARIFF
III - FINANCIAL STATEMENTS
IV - MANAGERIAL AND TECHNICAL CAPABILITIES

**** APPENDIX A ****

CERTIFICATE OF TRANSFER STATEMENT

I, , of (Company Name)., and current holder of certificate number ________________, have reviewed this application and join in the petitioner's request for a transfer of the above-mention certificate.

Not Applicable

UTILITY OFFICIAL: ______________________________ ________________

Signature Date

______________________________ ________________

Telephone

**** APPENDIX B ****

CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be responded to in one of the following ways (applicant please check one):

(X) **The applicant will not collect deposits nor will it collect payments for service more than one month in advance.**

( ) **The applicant will file with the Commission and maintain a surety bond in an amount equal to the current balance of deposits and advance payments in excess of one month. (Bond must accompany application.)**

UTILITY OFFICIAL: ______________________ 12/3/1999
Signature Date

Claude Buchert, President
Coyote Metro, LLC
1640 S. Sepulveda, Suite 320
Los Angeles, CA 90025
(800) 867-8969

**** APPENDIX C ****

INTRASTATE NETWORK

1. POP: Addresses where located, and indicate if owned or leased.

1)
2)
3)
4)

2. SWITCHES: Address where located, by type of switch and indicate if owned or leased.

1)
2)
3)
4)

3. TRANSMISSION FACILITIES: POP-to-POP facilities by type of facilities (microwave, fiber copper, satellite, etc.) and indicate if owned or leased.

POP-to-POP	TYPE	OWNERSHIP
1)		
2)		
3)		

4. ORIGINATING SERVICE: Please provide the list of exchanges where you are proposing to provide originating service within thirty (30) days after the effective date of the certificate. (Appendix D)

Statewide

5. TRAFFIC RESTRICTIONS: Please explain how the applicant will comply with the EAEA requirements contained in Commission Rule 25-24.471 (4)(a) (copy enclosed).

Not applicable

6. **CURRENT FLORIDA INTRASTATE SERVICES: Applicant has ( ) or has not (X) previously provided intrastate telecommunications in Florida. If the answer is <u>has</u>, fully describe the following:**

(a) What services have been provided and when did these service begin?

Not applicable

(b) If the services are not currently offered, when were they discontinued?

Not applicable.

UTILITY OFFICIAL: ______________________ 12/9/1999
Signature Date

Claude Buchert, President
Coyote Metro, LLC
1640 S. Sepulveda, Suite 320
Los Angeles, CA 90025
(800) 867-8969

** APPENDIX D **

FLORIDA TELEPHONE EXCHANGES
AND
EAS ROUTES

Describe the service area in which you hold yourself out to provide service by telephone company exchange. If all services listed in your tariff are not offered at all locations, so indicate.

In an effort to assist you, attached is a list of major exchanges in Florida showing the small exchanges with which each has extended area service (EAS).

** FLORIDA EAS FOR MAJOR EXCHANGES **

Extended Service Area with These Exchanges

PENSACOLA:	Cantonment, Gulf Breeze, Pace, Milton Holley-Navarre.	
PANAMA CITY:	Lynn Haven, Panama City Beach, Youngstown-Fountain and Tyndall AFB.	
TALLAHASSEE:	Crawfordville, Havana, Monticello, Panacea, Sopchoppy and St. Marks.	
GAINESVILLE:	Alachua, Archer, Brooker, Hawthorne, High Springs, Melrose, Micanopy, Newberry and Waldo.	
OCALA:	Belleview, Citra, Dunnellon, Forest Lady Lake (B21), McIntosh, Iklawaha, Orange Springs, Salt Springs and Silver Springs Shores.	
DAYTONA BEACH:	New Smyrna Beach.	
TAMPA:	Central	None
	East	Plant City
	North	Zephyrhills
	South	Palmetto
	West	Clearwater
CLEARWATER:	St. Petersburg, Tampa-West and Tarpon Springs.	

ST. PETERSBURG:	Clearwater.
LAKELAND:	Bartow, Mulberry, Plant City, Polk City and Winter Haven.
ORLANDO:	Apopka, East Orange, Lake Buena Vista, Oviedo, Windermere, Winter Garden, Winter Park, Montverde, Reedy Creet, and Oviedo-Winter Springs.
WINTER PARK:	Apopka, East Orange, Lake Buena Vista, Orlando, Oviedo, Sanford, Windermere, Winter Garden, Oviedo-Winter Springs, Reedy Creek, Geneva and Montverde.
TITUSVILLE:	Cocoa and Cocoa Beach.
COCOA:	Cocoa Beach, Eau Gallie, Melbourne and Titusville.
MELBOURNE:	Cocoa, Cocoa Beach, Eau Gallie and Sebastian.
SARASOTA:	Bradenton, Myakka and Venice.
FT. MYERS:	Cape Coral, Ft. Myers Beach, North Cape Coral, North Ft. Myers, Pine Island, Lehigh Acres and Sanibel-Captiva Islands.
NAPLES:	Marco Island and North Naples.
WEST PALM BEACH:	Boynton Beach and Jupiter.
POMPANO BEACH:	Boca Raton, Coral Springs, Deerfield Beach and Ft. Lauderdale.
FT. LAUDERDALE:	Coral Springs, Deerfield Beach, Hollywood and Pompano Beach.
HOLLYWOOD:	Ft. Lauderdale and North Dade.
NORTH DADE:	Hollywood, Miami and Perrine.
MIAMI:	Homestead, North Dade and Perrine.

INET intends to offer service throughout the State of Florida.

ATTACHMENT I

AUTHORITY TO OPERATE IN FLORIDA

FLORIDA DEPARTMENT OF STATE
Katherine Harris
Secretary of State

January 27, 2000

INET LOCAL PHONE SERVICE
1640 S SEPULVEDA BLVD SUITE 320
LOS ANGELES, CA 90025

Subject: **INET LOCAL PHONE SERVICE**

REGISTRATION NUMBER: **G00027900099**

This will acknowledge the filing of the above fictitious name registration which was registered on January 27, 2000. This registration gives no rights to ownership of the name.

Each fictitious name registration must be renewed every five years between January 1 and December 31 of the expiration year to maintain registration. Three months prior to the expiration date a statement of renewal will be mailed.

IT IS THE RESPONSIBILITY OF THE BUSINESS TO NOTIFY THIS OFFICE IN WRITING IF THEIR MAILING ADDRESS CHANGES. Whenever corresponding please provide assigned Registration Number.

Should you have any questions regarding this matter you may contact our office at (850) 488-9000.

Public Assistance
Division of Corporations Letter No. 200A00003888

APPLICATION FOR REGISTRATION OF FICTITIOUS NAME

APPROVED AND FILED

00 JAN 27 AM 11:42

SECRETARY OF STATE
TALLAHASSEE, FLORIDA

Section 1

1. INET Local Phone Service
Fictitious Name to be Registered

2. 1640 S. Sepulveda Blvd Ste 320
Mailing Address of Business
Los Angeles, CA 90025
City State Zip Code

3. Florida County of principal place of business:
Multiple Counties

4. FEI Number: 95-4720839

Section 2

This space for office use only

A. Owner(s) of Fictitious Name If Individual(s): (Use an attachment if necessary):

1. ______
Last First M.I.
______
Address
______
City State Zip Code
SS# ______

2. ______
Last First M.I.
______
Address
______
City State Zip Code
SS# ______

B. Owner(s) of Fictitious Name If other than Individuals(s): (Use attachment if necessary):

1. Coyote Metro, LLC
Entity Name
1640 S. Sepulveda Blvd. Ste 320
Address
Los Angeles, CA 90025
City State Zip Code
Florida Registration Number M96-255
FEI Number: 95-4720839
☐ Applied for ☐ Not Applicable

2. ______
Entity Name
______
Address
______
City State Zip Code
Florida Registration Number ______
FEI Number: ______
☐ Applied for ☐ Not Applicable

Section 3

I (we) the undersigned, being the sole (all the) party(ies) owning interest in the above fictitious name, certify that the information indicated on this form is true and accurate. I (we) further certify that the fictitious name shown in Section 1 of this form has been advertised at least once in a newspaper as defined in chapter 50, Florida Statutes, in the county where the applicant's principal place of business is located. I (we) understand that the signature(s) below shall have the same legal effect as if made under oath. (At Least One Signature Required)

______ JAN 17, 2000
Signature of Owner Date
Phone Number: 310 966 2330

______
Signature of Owner Date
Phone Number: ______

Section 4

FOR CANCELLATION COMPLETE SECTION 4 ONLY:
FOR FICTITIOUS NAME OR OWNERSHIP CHANGE COMPLETE SECTIONS 1 THROUGH 4:

I (we) the undersigned, hereby cancel the fictitious name ______
______, which was registered on ______ and was assigned registration number ______

______
Signature of Owner Date

______
Signature of Owner Date

Mark the applicable boxes ☐ Certificate of Status - $10 ☐ Certified Copy - $30

Filing Fee: $50

Note: Acknowledgements/certificates will be sent to the address in Section 1 only.

CR4E-001 (5/96)

TALLAHASSEE DEMOCRAT
PUBLISHED DAILY
TALLAHASSEE - LEON - FLORIDA

STATE OF FLORIDA COUNTY OF LEON:
Before the undersigned authority personally appeared Harrison Arencibian who on oath says that he is Legal Advertising Representative of the Tallahassee Democrat, a daily newspaper published at Tallahassee in Leon County, Florida; that the attached copy of advertising being a Legal Ad in the matter of

NOTICE OF FICTITIOUS NAME

was published in said newspaper in the issues of:

FEBRUARY 3, 2000

Affiant further says that the said Tallahassee Democrat is a newspaper published at Tallahassee, in the said Leon County, Florida, and that the said newspaper has heretofore been continuously published in said Leon County, Florida, each day and has been entered as second class mail matter at the post office in Tallahassee, in said Leon County, Florida, for a period of one year next preceding the first publication of the attached copy of advertisement; and affiant further says that he has neither paid nor promised any person, firm or corporation any discount, rebate, commission or refund for the purpose of securing this publication in the said newspaper.

Harrison Arencibian

HARRISON ARENCIBIAN
LEGAL ADVERTISING REPRESENTATIVE

Sworn To And Subscribed Before Me This
3rd Day of February A.D. 2000

Cynthia C. Oullette

(SEAL) Notary Public

1 Legal Notices

We hereby give notice to register in compliance with Section 865.09 Florida Statute.

NAME OF BUSINESS:
INET Local Phone Service

ADDRESS:
1640 S. Sepulveda Blvd
Ste 320
Los Angeles, CA 90025.

OWNER:
Coyote Metro, LLC

FEBRUARY 3, 2000

FLORIDA DEPARTMENT OF STATE
Katherine Harris
Secretary of State

August 19, 1999

Re: Document Number M96000000255

The Amendment to the Application of a Foreign Limited Liability Company for SATTEL STREAMRAMP, LLC which changed its name to COYOTE METRO, LLC, a Nevada limited liability company authorized to transact business in Florida, was filed on August 17, 1999.

Should you have any questions regarding this matter, please telephone (850) 487-6051, the Registration Section.

Michael Mays
Document Specialist
Division ofCorporation

Letter Number: 399A00041653

APPLICATION BY FOREIGN LIMITED LIABILITY COMPANY TO FILE AMENDMENT TO APPLICATION FOR AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA

SECTION I (1-3 must be completed)

1. Name of limited liability company as it appears on the records of the Florida Department of State: Sattel Streamramp, LLC doing business in Florida as Sattel Streamramp, L.L.

2. Jurisdiction of its organization: Nevada

3. Date authorized to do business in Florida: July 15, 1996

SECTION II (4-7 complete only the applicable changes)

4. If the amendment changes the name of the limited liability company, when was the change effected under the laws of its jurisdiction of organization? July 30, 1999

5. New name of the limited liability company: Coyote Metro, LLC

(Name must end with the words "limited company" or the abbreviation "L.C." if not so contained in the name at present.)

6. If the amendment changes the period of duration, indicate new period of duration:

7. If the amendment changes the jurisdiction of organization, indicate new jurisdiction:

8. Attached is an original certificate, no more than 90 days old, evidencing the aforementioned amendment(s), duly authenticated by the Secretary of State or the proper official having custody of records under the law of which this entity is organized.

Signature of a member or the authorized representative of a member

James J. Fiedler, Managing Member
Typed or printed name of signee

Filing Fee: $52.50

ATTACHMENT II

PROPOSED TARIFF

TITLE SHEET

Coyoyte Metro, LLC

d/b/a

INET Local Phone Service

TARIFF NO. 1

This tariff contains the description, regulations, and rates applicable to the furnishing of service and facilities for interexchange telecommunications services provided by Coyote Metro, LLC with principal offices at 1640 S. Sepulveda, Suite 320, Los Angeles, CA 90025. This tariff is on file with the Florida Public Service Commission, and copies may be inspected during normal business hours at the Company's principal place of business.

CHECK SHEET

The sheets listed below are inclusive and effective as of the date shown. Original and revised sheets as named below contain all changes from the original tariff that are in effect on the date shown on each sheet.

Sheet	Revision	Sheet	Revision
1	Original *	21	Original *
2	Original *	22	Original *
3	Original *	23	Original *
4	Original *	24	Original *
5	Original *	25	Original *
6	Original *	26	Original *
7	Original *	27	Original *
8	Original *	28	Original *
9	Original *	29	Original *
10	Original *	30	Original *
11	Original *	31	Original *
12	Original *	32	Original *
13	Original *		
14	Original *		
15	Original *		
16	Original *		
17	Original *		
18	Original *		
19	Original *		
20	Original *		

*Indicates those sheets included with this filing.

TABLE OF CONTENTS

ALPHABETICAL INDEX

SYMBOLS

The following are the only symbols used for the purposes indicated below:

D	Deleted or Discontinued Material
I	Change Resulting In An Increase To A Customer's Bill
M	Moved From Another Tariff Location
N	New Material
R	Change Resulting In A Reduction To A Customer's Bill
T	Change In Text or Regulation But No Change In Rate or Charge

TARIFF FORMAT

A. **Sheet Numbering** - Sheet numbers appear in the upper-right corner of the sheet. Sheets are numbered sequentially. When a new sheet is added between existing sheets with whole numbers, a decimal is added. For example, a new sheet added between Sheet 34 and Sheet 35 would be Sheet 34.1.

B. **Sheet Revision Numbers** - Revision numbers also appear in the upper-right corner of the sheet. These numbers are used to determine the most current sheet version on file with the Commission. For example, 4th Revised Sheet 34 cancels 3rd Revised Sheet 34.

C. **Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level of coding.

2.
2.1.
2.1.1.
2.1.1.A.
2.1.1.A.1.
2.1.1.A.1.(a)
2.1.1.A.1.(a).I.
2.1.1.A.1.(a).I.(i)
2.1.I.A.1.(a).I.(i).(1)

D. **Check Sheets** - When a tariff filing is made with the Commission, an updated check sheet accompanies the tariff filing. The check sheet lists the sheets contained in the tariff, with a cross reference to the current revision number. When new sheets are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this sheet if these are the only changes made to it (i.e., the format, etc., remains the same, just revised revision levels on some sheets). The tariff user should refer to the latest check sheet to find out if a particular sheet is the most current sheet on file with the Commission.

SECTION 1 — TECHNICAL TERMS AND ABBREVIATIONS

1.1 Definitions

Aggregator - Any person or entity that, in the ordinary course of its operations, makes telephones available to the public or to end users of its premises for telephone calls using a provider of operator services.

Application for Service - A standard order form which includes all pertinent billing, technical, and other descriptive information which will enable the carrier to provide the communication service as required.

Authorization Code - A numerical code, one or more of which are assigned to a customer to enable Reseller to identify use of service on his account and to bill the customer accordingly for such service. Multiple authorization codes may be assigned to a customer to identify individual users or groups of users on his account.

Authorized User - A person, firm, corporation, or other entity authorized by the customer to receive or send communications.

Automatic Dialing Device - A device provided by the carrier which, when attached to customer's telephone equipment, dials the carrier's facilities, emits an authorization code, and forwards the number which the customer is calling to the carrier's facilities.

Calling Card Call - A call billed to a card number issued by a Local Exchange Company.

Carrier/Company - INET unless otherwise specified or clearly indicated by the context.

Collect Call - A billing arrangement whereby the charge for a call may be charged to the called party, provided the called party accepts the charge.

Completed Calls - Completed calls are answered calls on the distance end. Appropriate one minute credits will be issued for incomplete calls billed to a customer when brought to the Company's attention by the customer. These one minute credits do not apply to calls terminating in an answering device.

SECTION 1 — TECHNICAL TERMS AND ABBREVIATIONS, (CONT'D.)

1.1 Definitions, (Cont'd.)

Credit Card Call - A call billed to a major credit or charge card such as Visa, MasterCard or American Express.

Customer - The person, firm, corporation, or other entity which orders or uses service and is responsible for the payment of charges and compliance with tariff regulations.

Day Rate Period - 8:00 a.m. to 4:59 p.m. Monday through Friday.

Disconnection - The disconnection of a circuit, dedicated access line or port connection being used for existing service.

Evening Rate Period - 5:00 p.m. to 10:59 p.m. Sunday through Friday.

Excessive Call Attempt - A customer attempt to make a call over the Carrier's network using an invalid authorization code during a measured 15 minute period within which 10 or more incomplete call attempts are made by the customer from the same customer line, and where those attempts do not complete because the customer has not used a valid authorization code.

INET - Coyote Metro, LLC , d/b/a INET Local Phone Service, issuer of this tariff.

Local Distribution Area (LDA) - Metropolitan locations served by Carrier which have been defined by the telephone company providing local service in its local exchange tariff as "local calling area."

SECTION 1 — TECHNICAL TERMS AND ABBREVIATIONS, (CONT'D.)

1.1 Definitions, (Cont'd.)

Measured Use Service - The provision of long distance measured time communications telephone service to customers who access the carrier's services at its switching and call processing equipment by means of access facilities obtained from another carrier by the customer or otherwise provided at its own expense (the customer is responsible for arranging for the access line)

Night/Weekend Rate Period - 5:00 p.m. to 8:00 a.m, Saturday and Sunday.

Person-to-Person Call - A service whereby the person originating the call specifies to the Company operator a particular person to be reached, or a particular station, room number, department, or office to be reached through a PBX attendant.

Premises - The space designated by a customer as its place or places of business for termination of service (whether for its own communications needs or for its resale customers). In the case of a non-profit sharing group, this term includes space at each sharer's place or places of business as well as space at the customer's place(s) of business.

Subscriber - The person, firm, partnership, corporation or other entity who owns, leases or manages the pay telephone, PBX or other switch vehicle from which and end user places a call utilizing the services of the Company.

Terminal Equipment - All telephone instruments, large and small key PBX systems and other devices and apparatus, and associated wiring, which are intended to be connected electrically, acoustically or inductively to the telecommunication system of the telephone utility.

Third Party Billed Call - A billing arrangement by which the charges for a call may be billed to a number that is different from the calling number and the called number.

V&H Coordinates - Geographic points which define the originating and terminating points of a call in mathematical terms so that the airline mileage of the call may be determined. Call mileage may be used for the purpose of rating calls.

SECTION 1 — TECHNICAL TERMS AND ABBREVIATIONS, (CONT'D.)

1.2 Abbreviations

LATA - Local Access Transport Area
LDA - Local Distribution Area
LEC - Local Exchange Carrier
MTS - Message Toll Service
NSF - Non-Sufficient Funds
OSP - Operator Service Provider
PBX - Private Branch Exchange
SAL - Special Access Line
V&H - Vertical and Horizontal
WATS - Wide Area Telephone Service

SECTION 2 — RULES AND REGULATIONS

2.1 Provision of Service

INET's services and facilities are furnished for communications originating and terminating within the State of Florida under terms of this tariff. The Company's services and facilities are available twenty-four (24) hours per day, seven (7) days per week.

INET arranges for installation, operation, and maintenance of the communications services provided in this tariff for Customers and Subscribers in accordance with the terms and conditions set forth under this tariff. INET may act as the Customer's or Subscriber's agent for ordering access connection facilities provided by other carriers or entities, when authorized by the Customer or Subscriber, to allow connection of a Customer's or Subscriber's location to the INET network. The Customer or Subscriber shall be responsible for all charges due for such service arrangements.

2.2 Limitations on Service

2.2.1 Carrier reserves the right to provide services only to and from locations where the necessary facilities and/or equipment are available. Carrier provides service subject to the provisions of this tariff.

2.2.2 Carrier reserves the right to discontinue furnishing service upon written notice, when necessitated by conditions beyond its control or when the customer is using the service in violation of the provisions of this tariff or in violation of the law.

2.2.3 Title to all equipment provided by Carrier under these regulations remains with Carrier. Carrier's prior written permission is required before any assignment or transfer. All regulations and conditions contained in this tariff shall apply to all such permitted assignees or transferees, as well as all conditions for service

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.3 Use of Service

Service may not be used for any unlawful purposes or for any purpose for which any payment or other compensation is received by the customer, except when the customer is a duly authorized and regulated common carrier.

2.4 Limitation of Liability

2.4.1 Carrier shall not be liable to any person, firm or entity for damages, either direct, indirect, consequential, special, incidental, actual, punitive, or for any other damages or for any lost profits of any kind, arising out of mistakes, accidents, errors, omissions, interruptions, delays or defects in transmissions, not caused by the negligence of the customer, commencing upon activation of service and in no event exceeding an amount equivalent to the proportionate charge to the customer for the period of service during which the mistake, accident, error, omission, interruption, delay or defect in transmission occurred.

2.4.2 Carrier will indemnify the customer and hold it harmless in respect to any loss, damage, liability or expense asserted against the customer by a third party on account of any property damage or personal injury caused by any negligence or willful misconduct of Carrier or its agents or representatives arising out of performance by Carrier of any testing or other activities on the customer's premises pursuant to this tariff. Carrier's obligations under the preceding sentence shall be subject to the customer's full performance of this tariff and subject further to the customer's duty to take reasonable precautions in the location, construction, maintenance and operation of all activities, facilities and equipment for the protection against hazard or injury and so as to not interfere with the services provided by Carrier.

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.4 Limitation of Liability, (Cont'd.)

2.4.3 Carrier shall be indemnified and held harmless by the customer against:

(A) Claims for libel, slander, infringement of patent or copyright or unauthorized use of any trademark, trade name, or service mark arising out of the material, data information, or other content transmitted over the carrier's facilities; and

(B) All other claims arising out of any act or omission by the customer in connection with any service provided by Carrier.

2.4.4 With respect to the routing of calls by Carrier to public safety answering points or municipal Emergency Service providers, Carrier's liability,if any, will be limited to the lesser of: (a) the actual monetary damages incurred and proved by the Customer as the direct result of Carrier's action, or failure to act in routing the call, or (b) the sum of $1,000.00.

2.5 Interruption of Service

A credit allowance for interruptions of service which are not due to Carrier's testing or adjusting, to the negligence of the customer, or to the failure of the channels, equipment, and/or communications systems provided by the customer, are subject to the general liability provisions set forth herein. It shall be the obligation of the customer to notify Carrier of any interruption in service. Before giving such notice, the customer shall ascertain that the trouble is not being caused by any action or omission by or within the customer's control and is not in wiring or equipment connected to Carrier's terminal.

2.6 Restoration of Service

The use and restoration of service in emergencies shall be in accordance with the Rules and Regulations set forth by the Commission.

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.7 Customer Responsibility

2.7.1 All customers assume general responsibilities in connection with the provisions and use of Carrier's service. When facilities, equipment, and/or communication systems provided by others are connected to Carrier's facilities, the customer assumes additional responsibilities. All customers are responsible for the following:

(A) The customer is responsible for placing orders for service, paying all charges for service rendered by Carrier and complying with all of Carrier's regulations governing the service. The customer is also responsible for assuring that its users comply with regulations.

(B) When placing an order for service, the customer must provide:

1. The name(s) and address(es) of the person(s) responsible for the payment of service charges.

2. The name(s), telephone number(s), and address(es) of the customer contact person(s).

(C) The customer must pay Carrier for the replacement or repair of Carrier's equipment when the damage results from:

1. The negligence or willful act of the customer or user;

2. Improper use of service; or

3. Any use of equipment or service provided by others.

(D) After receipt of payment for the damages, Carrier will cooperate with the customer in prosecuting a claim against any third party causing damage.

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.7 Customer Responsibility, (Cont'd.)

2.7.2 Maintenance, Testing and Adjustment

Upon reasonable notice, the equipment provided by Carrier shall be made available for any testing and adjustment which may be necessary to maintain them in satisfactory condition. No interruption allowance will be granted for the time during which such tests and adjustments are made.

2.7.3 Deposits

The Company does not require a deposit from the customer.

2.7.4 Advance Payments

The Company does not require advance payments for service.

2.7.5 Credit Allowances

Credit for failure of service or equipment will be allowed only when failure is caused by or occurs in equipment owned, provided and billed for, by Carrier.

(A) Credit allowances for failure of service or equipment starts when the customer notifies Carrier of the failure or when Carrier becomes aware of the failure and ceases when the operation has been restored and an attempt has been made to notify the customer.

(B) The customer shall notify Carrier of failures of service or equipment and make reasonable attempts to ascertain that the failure is not caused by customer provided facilities, any act, or omission of the customer or in wiring or equipment connected to the terminal.

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.7 Customer Responsibility, (Cont'd.)

2.7.5 Credit Allowances, (Cont'd.)

(C) Only those portions of the service or equipment operation disabled will be credited. No credit allowances will be made for:

1. Interruptions of service resulting from Carrier performing routine maintenance;

2. Interruptions of service for implementation of a customer order for a change in the service;

3. Interruption caused by the negligence of the customer or his authorized user;

4. Interruptions of service due to customer or authorized user provided facilities.

2.7.6 Cancellation by Customer

The Customer may have service discontinued upon written or verbal notice to the Company. The Customer shall pay the Company for service furnished until the cancellation date specified by the Customer or until the date that the written cancellation notice is received, whichever is later.

2.7.7 Payment and Charges for Services

Charges for service are applied on a recurring and non-recurring basis. Service is provided and billed on a monthly basis. Service continues to be provided until disconnection is requested by the customer.

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.7 Customer Responsibility, (Cont'd.)

2.7.7 Payment and Charges for Services, (Cont'd.)

(A) Payment of Charges

Payment is due upon receipt of the invoice and shall be considered past due or delinquent after 30 days beyond the due date. Interest at the greater of 1.5% per month or the highest rate allowed by law will accrue on any unpaid amount commencing on the sixteenth day after rendition of the bill.

1. The customer is responsible for payment of all charges for service furnished to the customer. The initial billing may consist of one month estimated usage billed in advance. Thereafter, charges based on actual usage during a month will be billed monthly in arrears.

2. Service may be denied or discontinued for non-payment charges. Disconnection will not occur before fifteen (15) days from the due date and Carrier will give five (5) days written notice before any disconnection occurs. Restoration of service will be subject to all applicable installation charges.

3. All state and local taxes (i.e. gross receipts tax, sales tax, municipal utilities tax) are listed as separate line items and are not included in the quoted rates.

2.7.8 Application of Charges

The charge for service are those in effect for the period that service is furnished.

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.8 Carrier Responsibility

2.8.1 Calculation of Credit Allowance

Pursuant to limitations set forth in Section 2.7.4, when service is interrupted the credit allowance will be computed on the following basis:

(A) No credit shall be allowed for an interruption of less than two hours.

(B) The customer shall be credited for each hour or major fraction thereof that an interruption continues beyond two hours.

(C) When a minimum usage charge is applicable and the customer fails to meet a usage minimum, credit for the outage shall be applied against that minimum equal to 1/360th of the monthly minimum charges associated with the portion of service disabled beyond two hours.

(D) Customers have up to 60 days (commencing 5 days after remittance of the bill) to initiate a dispute over charges or to receive credit.

2.8.2 Cancellation Credit

Where Carrier cancels a service or the provision of equipment and the final service period is less than the monthly billing period, a credit will be issued for any amounts billed in advance, prorated at 1/30th of the monthly recurring charge for each day the service was not rendered or the equipment was not provided. This credit will be issued to the customer or applied against the balance remaining on the customer's account.

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.8 Carrier Responsibility, (Cont'd.)

2.8.3 Disconnection of Service by Carrier

Carrier, upon 5 days written notice to the customer, may discontinue service or cancel an application for service without incurring any liability for any of the following reasons:

(A) Non-payment of any sum due to Carrier for service for more than thirty days beyond the date of rendition of the bill for such service;

(B) A violation of any regulation governing the service under this tariff;

(C) A violation of any law, rule, or regulation of any government authority having jurisdiction over the service; or

(D) Carrier is prohibited from furnishing services by order of a court or other government authority having jurisdiction.

2.8.4 Fractional Charges

Charges for a fractional part of a month are calculated by counting the number of days remaining in the billing period before service was discontinued, dividing the number of days remaining in the billing period by thirty days and multiplying the resulting fraction by the monthly charge.

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.9 Special Conditions Governing Operator Services

2.9.1 Company Obligations

When providing Operator Services to Aggregators, the Company will:

(A) Notify the End User of the operator services carrier handling the call at the beginning of each call and again before the End User incurs any charge, otherwise referred to as "double branding".

(B) Inform the End User, upon request, of the rates to be charged and explain the method of billing, at no charge.

(C) Not charge for unanswered or incomplete telephone calls in equal access areas and not knowingly charge for unanswered or incomplete telephone calls in non-equal access areas.

(D) Withhold payment of commission or any other compensation to a Customer who engages in blocking 800, 950 and 10XXX access calls.

(E) Not engage in call splashing (billing rates other than from the actual call origination location), unless the End User is informed and consents to the transfer.

(F) Rate and bill calls from their actual point of origination, unless the End User consents to a different arrangement.

(G) Upon receipt of an emergency telephone call, Carrier shall immediately connect the call to the appropriate emergency service of the reported location of the emergency, if known, and, if not known, of the originating location of the call.

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.9 Special Conditions Governing Operator Services, (Cont'd.)

2.9.2 Aggregator Obligations

(A) The Company requires each operator service customer to post an informational card (tent card), as defined in Section 2.9.6 of this tariff, on or near the telephone notifying the End User of the following information:

1. The name, address and toll-free number of the operator service provider.
2. The Company's operator service rates (collect, credit card, person-to-arson, etc.).
3. The Company's billing procedures.
4. IntraLATA dialing instructions.
5. IntraLATA rates or how to obtain these rates.
6. InterLATA dialing instructions.
7. InterLATA rates or how to obtain these rates.
8. Hotel surcharge for local calls, if any, which are billed by the hotel.
9. Hotel surcharge for long distance calls, if any which are billed by the hotel.

2.9.3 Operator Service Billing Procedures

Subscribers will be billed for operator assisted calls by the Carrier's billing agent. Invoices for these services will be included in the subscriber's local telephone bill.

2.9.4 Call Routing

Carrier will route all 0- and 0+ intraLATA calls to the Local Exchange Company for appropriate handling.

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.9 Special Conditions Governing Operator Services, (Cont'd)

2.9.5 Incomplete Calls

There shall be no charge to the caller for incomplete calls.

(A) Carrier will not knowingly bill for uncompleted calls.

(B) Carrier will provide full credit for any call of one minute or less upon being informed by a customer that the call was not completed.

(C) An uncompleted call includes, but shall not be limited to:

1. calls terminating in an intercept recording, line intercept operator or a busy tone; or

2. calls that do not answer.

(D) An uncompleted call does not include calls using busy line interrupt, -line -status verification or directory assistance services.

SECTION 2 — RULES AND REGULATIONS, (CONT'D.)

2.9 Special Conditions Governing Operator Services, (Cont'd)

2.9.6 Sample Tent Card for Aggregator Locations - The Company provides a tent card for OSP calls. An example of the front and back of the tent card is provided below.

INET Local Phone Service

Dialing Instructions for Operator Assisted and Calling Card Calls

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Long Distance Dialing Instructions

Domestic

9 + 0 + area code + phone number
At the tone, dial your calling card number, or press "0" for an operator

International

9 + 01 + country code + city code + phone number
At the tone, dial your calling card number, or press "0" for an operator

Payment may be made by using telephone calling cards, most major credit cards, calling collect or verified third party billing.

Consumer Information

For free rate quotes, reach an outside line then dial 0+ area code + number, than wait for a INET operator. For additional information, call our customer service department at (800) 867-8969 or write INET Local Phone Service at 1640 S. Sepulveda, Suite 320, Los Angeles, CA 90025

Your may reach other long distance carriers from this telephone. Just dial the access code provided by that carrier.

Any complaints may be directed to:

FCC Enforcement Division
Common Carrier Bureau
Mail Stop 1600A2
Washington DC 20554

Florida Public Service Commission
Division of Communication
2540 Shumard Oak Boulevard
Gerald L. Gunter Building, Room 270
Tallahassee, FL 32399-0850

SECTION 3 - DESCRIPTION OF SERVICE

3.1 General

Customers reselling or rebilling telecommunications services must have a Certificate of Public Convenience and Necessity as an interexchange carrier from the Florida Public Service Commission.

3.2 Timing of Calls

3.2.1 Long distance charges are based on the usage of INET 's network. Chargeable time begins when the local exchange company signals that the called party has answered. Chargeable time ends when either party disconnects.

3.2.2 Minimum call durations and rounding of usage measurements for billing purposes are specified in the description of each service in this tariff.

3.2.3 There is no billing applied for incomplete calls.

3.2.4 Calls are billed based on the rate in effect for the actual time period(s) during which the call occurs. Calls that cross rate period boundaries are billed at the rates in effect in that boundary for each portion of the call, based on the time of day at the Customer location.

3.3 Minimum Call Completion Rate

The Customer can expect a call completion rate of 99% per 100 calls attempted during peak use periods for all Feature Group D (1+) services. Carrier will engineer its switching systems on the basis that ninety-nine percent (99%) of the customers accessing their system will be served during the busy hour.

SECTION 3 - DESCRIPTION OF SERVICE, (CONT'D.)

3.4 Time of Day Rate Periods

Unless otherwise specified in this tariff, the following rate periods apply to services subject to time of day discounts:

<table>
<tr><th></th><th>MON</th><th>TUES</th><th>WED</th><th>THUR</th><th>FRI</th><th>SAT</th><th>SUN</th></tr>
<tr><td>8:00 AM
TO
5:00 PM*</td><td colspan="5">DAYTIME RATE PERIOD</td><td rowspan="2"></td><td></td></tr>
<tr><td>5:00 PM
TO
11:00 PM*</td><td colspan="5">EVENING RATE PERIOD</td><td>EVE</td></tr>
<tr><td>11:00 PM
TO
8:00 AM*</td><td colspan="7">NIGHT/WEEKEND RATE PERIOD</td></tr>
</table>

* Up to, but not including

Calls are billed based on the rate in effect for the actual time period(s) during which the call occurs. Calls that cross rate period boundaries are billed the rates in effect in that boundary for each portion of the call, based on the time of day at the Customer location.

SECTION 3 - DESCRIPTION OF SERVICE, (CONT'D.)

3.5 Calculation of Distance

Usage charges for mileage sensitive services vary based on the type of service subscribed to by the Customer. For services utilizing switched access, mileage measurements for rate schedules are based on the distance in airline miles between rate centers associated with the originating and terminating stations. For services utilizing dedicated access, mileage measurements for rate schedules are based on the distance in airline miles between the INET network access point associated with the station utilizing Dedicated Access Origination/Termination and the rate center associated with the called/calling station.

The distance between the originating and terminating points is calculated by using the "V" and "H" coordinates of the serving wire centers as defined by BellCore (Bell Communications Research), in the following manner:

Step 1: Obtain the "V" and "H" coordinates for the serving wire center or network access point serving the Customer's location and the called/calling station.

Step 2: Obtain the difference between the "V" coordinates. Obtain the difference between the "H" coordinates.

Step 3: Square the differences obtained in Step 2.

Step 4: Add the squares of the "V" difference and "H" difference obtained in Step 3.

Step 5: Divide the sum of the square obtained in Step 4 by ten (10). Round to the next higher whole number if any fraction results from the division.

Step 6: Obtain the square root of the whole number obtained in Step 5. Round to the next higher whole number if any fraction is obtained. This is the distance between the originating and terminating locations of the call.

Formula:

$$\sqrt{\frac{(V_1-V_2)^2+(H_1-H_2)^2}{10}}$$

SECTION 3 - DESCRIPTION OF SERVICE, (CONT'D.)

3.5 Operator Assisted Services

3.5.2 Long Distance Operator Assistance

The Company provides the Customer operator assisted services to aggregator locations on a per call service charge basis. In addition to the per call service charge, mileage-sensitive usage rates apply. The company's operator services are accessible on a twenty-four (24) hour per day seven (7) days per week basis.

The use of the Company's operator services allows the Customer to select from the special call handling or billing arrangements specified within. Call rates and applicable service charges will be assessed to the call originator, the called party's telephone number based on the call type (i.e. operator dialed, collect, third party billed, credit card billed or customer dialed credit card billed without the use of an operator's assistance) initiated by the call originator and the appropriate acknowledgment of other parties, where applicable.

SECTION 3 - DESCRIPTION OF SERVICE, (CONT'D.)

3.5 Operator Assisted Services, Cont'd.

3.5.2 Long Distance Operator Assistance, Cont'd.

The Company offers many operator service rate plans depending upon the needs of a particular Aggregator location. The types of calls handled are as follows:

Customer Dialed Calling/Credit Card Call - This charge applies in addition to long distance usage charges for station to station calls billed to an authorized Calling Card or Commercial Credit Card. The Customer must dial the destination telephone number where the capability exists for the Customer to do so. A separate rate applies in the event operator assistance is requested for entering the Customer's card number for billing purposes.

Operator Dialed Calling/Credit Card Call - This charge applies in addition to long distance usage charges for station to station calls billed to an authorized telephone Calling Card or Commercial Credit Card and the operator dials the destination telephone number at the request of the Customer.

Operator Station - These charges apply in addition to long distance usage charges for non-Person-to-Person calls placed using the assistance of a Company operator and billed Collect, to a Third Party, by deposit of coins in Pay Telephones, or via some method other than a Calling Card or Commercial Credit Card.

Person-to-Person - This charge applies in addition to long distance usage charges for calls placed with the assistance of a Company operator to a particular party at the destination number. This charge applies regardless of billing method, including but not limited to billing to a Calling Card, Commercial Credit Card, Collect, by deposit of coins in Pay Telephones, or to a Third Party. Charges do not apply unless the specified party or an acceptable substitute is available.

SECTION 3 - DESCRIPTION OF SERVICE, (CONT'D.)

3.6 INET Services

INET interexchange services are only offered as part of a bundled service. For a full description of INET Services see INET Local Phone Service's ALEC Florida Price List on file with the Florida Public Service Commission.

SECTION 4 - MISCELLANEOUS RATES AND CHARGES

4.1 Exemptions and Special Rates

4.1.1 Discounts for Hearing Impaired Customers

A telephone toll message which is communicated using a telecommunications devise for the deaf (TDD) by properly certified hearing or speech impaired persons or properly certified business establishments or individuals equipped with TDDs for communicating with hearing or speech impaired persons will receive, upon request, credit on charges for certain intrastate toll calls placed between TDDs. Discounts do not apply to surcharges or per call add-on charges for operator services when the call is placed by a method that would normally incur the surcharge.

A. The credit to be given on a subsequent bill for such calls placed between TDDs will be equal to applying the evening rate during business day hours and the night/weekend rate during the evening rate period.

B. The credit to be given on a subsequent bill for such calls placed with the assistance of the relay center will be equal to 50% of the rate for the applicable rate period. If either party is both hearing and visually impaired, the call shall be discounted at 60% of the applicable rate.

SECTION 4 - MISCELLANEOUS RATES AND CHARGES

4.2 Public Telephone Surcharge

In order to recover the Company's expenses to comply with the FCC's pay telephone compensation plan effective on October 7, 1997 (FCC 97-371), an undiscountable per call charge is applicable to all interstate, intrastate and international calls that originate from any domestic pay telephone used to access the Company's services. This surcharge, which is in addition to standard tariffed usage charges and any applicable service charges and surcharges associated with the Company's service, applies for the use of the instrument used to access The Company service and is unrelated to the Company service accessed from the pay telephone.

Pay telephones include coin-operated and coinless phones owned by local telephone companies, independent companies and other interexchange carriers. The Public Pay Telephone Surcharge applies to the initial completed call and any reoriginated call (i.e., using the "#" symbol).

Whenever possible, the Public Pay Telephone Surcharge will appear on the same invoice containing the usage charges for the surcharged call. In cases where proper pay telephone coding digits are not transmitted to the Company prior to completion of a call, the Public Pay Telephone Surcharge may be billed on a subsequent invoice after the Company has obtained information from a carrier that the originating station is an eligible pay telephone.

The Public Pay Telephone Surcharge does not apply to calls placed from pay telephones at which the Customer pays for service by inserting coins during the progress of the call.

Rate per Call: $0.30

SECTION 4 - MISCELLANEOUS RATES AND CHARGES, (CONT'D.)

4.3 Operator Assisted Services

4.3.1 Long Distance Operator Assistance

USAGE:

Mileage	DAY		EVENING		NIGHT/WEEKEND	
	1st Minute	Add'l. Minute	1st Minute	Add'l. Minute	1st Minute	Add'l. Minute
ALL	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30

Per Call Service Charges:

Customer Dialed Calling Card	$ 1.75
Operator Dialed Calling Card	$ 1.75
Collect	$ 1.75
Third Party Billed	$ 1.75
Person-to-Person	$ 3.25

SECTION 4 - MISCELLANEOUS RATES AND CHARGES, (CONT'D.)

4.4 INET Services

INET interexchange services are only offered as part of a bundled service. For a full description of INET rates and charges see INET Local Phone Service's ALEC Florida Price List on file with the Florida Public Service Commission.

ATTACHMENT III

FINANCIAL STATEMENTS

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.

3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

ATTACHMENT III

Financial Statements and Supporting Documentation

Coyote Metro, LLC presents the financial statements of its parent company Coyote Network Systems, Inc.:

Form 10Q	Quarterly period ended June 30, 1999
Form 10-K/A	Fiscal year ended March 31, 1999

The company does not forecast revenues or expenses on a state-by-state basis.

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

FORM 10-Q

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

For the quarterly period ended June 30, 1999

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 1-5486

COYOTE NETWORK SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	36-2448698
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4360 Park Terrace Drive, Westlake Village, CA	91361
(Address of principal executive offices)	(Zip Code)

(818) 735-7600
(Registrant's telephone number, including area 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

At August 12, 1999, the Registrant had issued and outstanding an aggregate of 12,602,350 shares of its common stock.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In Thousands)

	June 30, 1999 (Unaudited)	March 31, 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 1,344	$ 1,225
Receivables, net of allowance of $514 at June 30, 1999 and $402 at March 31, 1999	17,632	12,292
Inventories	1,642	2,130
Notes receivable – current	2,367	2,367
Other current assets	4,601	4,323
Total current assets	27,586	22,337
Property and equipment, net	9,074	8,192
Capitalized software development	1,941	1,604
Intangible assets, net	5,562	5,620
Net assets of discontinued operations	—	234
Notes receivable – non-current	905	871
Investments	1,550	1,550
Other assets	620	620
	$ 47,238	$ 41,028
Liabilities and Shareholders' Equity		
Current liabilities:		
Lines of credit	$ 777	$ 1,133
Accounts payable	8,149	8,161
Deferred revenue and customer deposits	12,164	7,811
Accrued professional fees and litigation costs	489	676
Other accrued liabilities	3,163	3,900
Current portion of long-term debt and capital lease obligations	1,147	1,315
Total current liabilities	$ 25,889	22,996
Notes payable	9,049	8,183
Long-term debt	1,464	1,534
Capital lease obligations	1,785	1,830
Other liabilities	422	428
Commitments and contingencies		
Shareholders' equity:		
Preferred stock - $.01 par value: authorized 5,000,000 shares; issued 600 and 700 shares, liquidation preference of $10,000 per share	6,000	7,000
Common stock - $1 par value: authorized 30,000,000 shares, issued 13,290,042 and 11,167,456 shares	13,290	11,167
Additional paid-in capital	114,852	109,649
Accumulated deficit	(119,756)	(116,002)
Treasury stock at cost	(5,757)	(5,757)
Total shareholders' equity	8,629	6,057
	$ 47,238	$ 41,028

See notes to condensed consolidated financial statements.

COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In Thousands)

	3 MONTHS ENDED	
	June 30, 1999	June 30, 1998
Operating activities:		
Net loss	$ (3,754)	$ (1,078)
Adjustments to reconcile loss to net cash provided (used) by operating activities:		
Depreciation and amortization	465	276
Net change in discontinued operations	234	---
Changes in current assets and liabilities	(1,257)	1,703
Net cash provided (used) by operating activities	(4,312)	901
Investing activities:		
Purchases of property and equipment	(1,289)	(722)
Increase in other assets	(337)	—
Proceeds from sales of marketable securities	—	30
Change in notes receivable	40	340
Increase in investments in affiliate	(303)	—
Net change in discontinued operations	—	(96)
Other items	---	5
Net cash provided (used) by investing activities	(1,889)	(443)
Financing activities:		
Repayments of long-term debt and capital lease obligations	(291)	(71)
Common stock issued, net of expenses	10,226	300
Redemption of preferred stock	(4,000)	---
Increase in note payable	741	590
Decrease in borrowing on line of credit	(356)	---
Other items	---	(9)
Net cash provided by financing activities	6,320	810
Increase (decrease) in cash and cash equivalents	119	1,268
Cash and cash equivalents:		
At beginning of the period	1,225	3,746
At end of the period	$ 1,344	$ 5,014

See notes to condensed consolidated financial statements.

NOTE 4 BUSINESS SEGMENT INFORMATION

In addition to operating the telecom switching equipment business segment, in fiscal 1999, the Company acquired AGT (April 1998) and INET (September 1998) and through these subsidiaries operates an international long distance services business segment. The accounting policies are the same for all segments; however, the Company evaluates performance based on operating profit. The telecom switching equipment business segment consists solely of the operations of CTL. Information by industry segment is as follows (in thousands):

	3 Months Ended	
	June 30, 1999	June 30, 1998
Net Sales:		
Switching equipment	$ 8,556	$ 7,065
Long distance services	1,849	128
	$ 10,405	$ 7,193
Operating Loss:		
Switching equipment	$ (1,451)	$ (49)
Long distance services	(1,103)	(315)
Corporate	(643)	(540)
	$ (3,197)	$ (904)
Depreciation and amortization:		
Switching equipment	$ 350	$ 261
Long distance services	110	12
Corporate	5	3
	$ 465	$ 276
Capital expenditures:		
Switching equipment	$ 31	$ 542
Long distance services	1,253	166
Corporate	5	14
	$ 1,289	$ 722
Identifiable assets:		
Switching equipment	$ 23,425	$ 10,762
Long distance services	13,691	1,466
Discontinued operations	---	1,005
Corporate	10,122	10,394
	$ 47,238	$ 23,627

NOTE 5 SHAREHOLDERS' EQUITY

Common Stock and Convertible Preferred Stock

On May 27, 1999, the Company sold, pursuant to Rule 506 under Regulation D, 1,767,000 shares of common stock at $6.00 per share in a private placement with new and existing domestic and international institutional investors. The placement agent received cash commissions of $352,000 and commissions in the form of common stock aggregating 131,148 shares and five-year warrants to purchase 176,700 shares at $6.00 per share. Of the net proceeds of approximately $10.2 million, $4.0 million were used to redeem a portion of the outstanding Convertible Preferred Stock and the balance is to be used for working capital. In connection with this redemption, the conversion price of the remaining $6 million of Convertible Preferred Stock was fixed at $6.00 per share and the Company issued the holder of the Convertible Preferred Stock 18-month warrants to purchase 325,000 shares of common stock at $6.00 per share. These warrants may be exercised at any time until December 30, 2000.

On July 15, 1999, the Company filed a registration statement as to the common stock issued in the private placement and underlying the warrants and Convertible Preferred Stock referred to above.

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

Results of Operations for the Quarter Ended June 30, 1999

For the first quarter of fiscal year 2000 we had revenues of $10.4 million, representing a $3.2 million, or a 45% increase over the first quarter of the prior fiscal year and a 30% increase over the previous quarter. Revenues from the sale of DSS Switches and related services increased to $8.6 million from $7.1 million in the prior year and from $6.1 million in the previous quarter. The international long distance service subsidiaries that were acquired during the prior fiscal year generated revenues of $1.8 million.

Shipments of switching equipment were contracted to three new customers during the quarter and they represented $7.5 million of the switching equipment revenues. We have granted extended payment terms to these customers while they are in the process of seeking lease financing for their capital purchases. In view of the extended payment terms and the comparatively short operating history of these customers, we have deferred recognition of profit of $5.6 million attributable of these sales, until payment is received or all contingencies are removed. Contingencies were removed and final payment has been received on equipment sales contracts in respect of which we had previously deferred profit of $1.6 million. This profit was recognized in the quarter ended June 30, 1999.

The revenue generated from sales of switching equipment is $8.6 million in the quarter with a gross margin of 31%. If the gross margin for the switching equipment was not impacted by the profit deferral described above, the gross margin on revenue of $8.6 million would be 77% compared to 55% in the first fiscal quarter of the prior year. The international long distance service subsidiaries that were acquired during the prior fiscal year generated a gross margin of $0.4 million or 24% of long distance service revenues during the quarter ended June 30, 1999. The total gross margin for all lines of business for the first fiscal quarter is $3.1 million, or 30% of total revenues, as compared to $3.9 million or 55% of total revenues for the first quarter of the prior fiscal year.

Selling and general administrative expenses for the first fiscal quarter were $4.1 million compared to $2.9 million for the first quarter of the prior fiscal year. The increase is primarily related to the additional operating expenses incurred by the long distance service providers acquired in fiscal 1999. As a proportion of total revenues, the selling and general administrative expenses improved to 39% from 41% in the first quarter of the prior fiscal year.

Engineering, research and development expenses for the first quarter of fiscal 2000 are $2.2 million, or 21% of sales, as compared with $1.9 million, or 27% of sales, for the first quarter of the prior fiscal year. We have continued to enhance product offerings to meet current and anticipated customer demand, including further refinement of our client/server architecture on our switch and the development of voice over Internet Protocol.

The operating loss for the quarter is $3.2 million versus a loss of $0.9 million in the first quarter of the prior fiscal year. The increase in the loss over the corresponding quarter of the prior year is primarily the result of the lower gross margin due to the profit deferrals referred to above and to the increased operating expenses required to support the increase in revenues.

Interest expense for the quarter is $0.4 million versus $0.02 million for the first quarter of the prior fiscal year. The increased expense is comprised entirely of financing costs related to the operations of the international long distance service subsidiaries.

The loss from discontinued operations in the first quarter of fiscal 2000 consists of property tax expenses related to the remaining assets of the discontinued operations. The assets were sold in July 1999.

The net loss for continuing operations for the first quarter of fiscal 2000 is $3.4 million versus a net loss of $1.1 million for the corresponding quarter of the prior year. The loss represents a basic and fully diluted loss per common share of $0.31 versus a loss of $0.11 for the corresponding quarter of the prior year. The loss from discontinued operations for the first quarter of fiscal 2000 is $0.3 million and increases the basic and fully diluted per share loss to $0.34.

statements rely on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside of the Company's control, that could cause actual results to differ materially from such statements. These include, but are not limited to: risks associated with recent operating losses, no assurance of profitability, the need to increase sales, liquidity deficiency and in general the other risk factors set forth in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1999. The Company disclaims any intention or obligation to update or revise any forward looking statements whether as a result of new information, future events or otherwise.

The Company has agreed to use its best efforts to file a registration statement as to the common stock issued in the private placement and underlying the warrants and Convertible Preferred Stock referred to above.

(3) A Form 8-K/A was filed by the Company on June 18, 1999, which covered:

Item 7 of the Current Report on Form 8-K of Coyote Network Systems, Inc. dated May 27, 1999, filed with the Securities and Exchange Commission on June 3, 1999, is hereby amended to refile Exhibit 4.2. An incorrect copy of such exhibit was filed on June 3, 1999.

(4) A Form 8-K/A, Amendment No. 2 was filed by the Company on June 22, 1999, which covered:

Item 7 of the Current Report on Form 8-K/A of Coyote Network Systems, Inc. dated May 27, 1999, filed with the Securities and Exchange Commission on June 18, 1999, is hereby amended to refile Exhibit 4.2. Such exhibit as filed June 18, 1999, incorrectly listed the title of Mr. Daniel W. Latham. Mr. Latham's title is hereby amended to correctly read President and Chief Operating Officer of Coyote Network Systems, Inc.

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

FORM 10-K/A

Amendment No. 2

☒ Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the fiscal year ended March 31, 1999

☐ 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 1-5486

COYOTE NETWORK SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	36-2448698
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4360 Park Terrace Drive, Westlake Village, California	91361
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:	(818) 735-7600
Securities registered pursuant to Section 12 (b) of the Act:	None
Securities registered pursuant to Section 12 (g) of the Act:	Common Stock, $1.00 par value

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

On July 12, 1999, the aggregate market value of the voting stock of the Registrant held by stockholders who were not affiliates of the Registrant was $58,353,000 based on the closing sale price of $5.00 of the Registrant's common stock on The Nasdaq National Stock Market. At July 12, 1999, the Registrant had issued and outstanding an aggregate of 12,702,350 shares of its common stock. For purposes of this Report, the number of shares held by non-affiliates was determined by aggregating the number of shares held by Officers and Directors of Registrant, and by others who, to Registrant's knowledge, own more than 10% of Registrant's common stock, and subtracting those shares from the total number of shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE – NONE.

formed Coyote Communications Services LLC, designed to provide network operations and support services to our customers and other new, entrepreneurial carriers.

Our principal executive offices are located at 4360 Park Terrace Drive, Westlake Village, California 91361 and our telephone number is (818) 735-7600.

Industry Overview

The telecommunications industry is in a period of rapid technological evolution, marked by the introduction of competitive product and service offerings, such as the utilization of IP (Internet Protocol) and ATM (Asynchronous Transfer Mode) networks, and the Internet for voice and data communications.

A survey of Fortune 1000 telecom and datacom managers by Killen & Associates shows that respondents expect 18% of all voice traffic to be IP-based by 2002, and to reach 33% by 2005. Probe Research expects the combined U.S. voice and fax over IP services market to reach 36 billion minutes by 2002. Jupiter Communications believes that established service providers should integrate IP telephony into their suite of services to prevent market erosion by nimble competitors. Voice compression is a benefit of IP telephony. Today's compression standards enable a toll quality call to be completed using a fraction of the bandwidth for an uncompressed call. We are committed to delivering leading edge technologies, such as compressed voice over IP.

From the standpoint of U.S.-based long distance providers, the industry can be divided into two major segments: the U.S. international market, consisting of all international calls billed in the U.S., and the overseas market, consisting of all international calls billed in countries other than the U.S. The U.S. international market has experienced substantial growth in recent years, with gross revenues from international long distance services rising from approximately $8.0 billion in 1990 to approximately $19.3 billion in 1997, according to Federal Communications Commission ("FCC") data.

The 1984 deregulation of the U.S. telecommunications industry enabled the emergence of a number of new long distance companies in the U.S. Currently, there are more than 500 U.S. long distance companies, most of which are small or medium-sized companies. To be successful, these small and medium-sized companies need to offer their customers a full range of services, including international long distance. However, most of these carriers do not have the critical mass to receive volume discounts on international traffic from the larger facilities-based carriers such as AT&T Corp. ("AT&T"), MCI Worldcom ("MCI") and Sprint Corporation ("Sprint"). In addition, these small and medium-sized companies generally have only limited capital resources to invest in international facilities. New international carriers emerged to take advantage of this demand for less expensive international bandwidth. These entrepreneurial multinational carriers acted as aggregators of international traffic for smaller carriers, taking advantage of larger volumes to obtain volume discounts on international routes (resale traffic), or investing in facilities when volume on particular routes justified such investments. Over time, as these international carriers became established and created high quality networks, they began to carry overflow traffic from the larger long distance providers seeking lower rates on certain routes. Our wholesale international long distance company and Telecom Alliance are designed, among other things, to obtain volume discounts and other economies by aggregating a number of emerging carriers.

Deregulation and privatization have also allowed new long distance providers to emerge in foreign markets. By eroding the traditional monopolies held by single national providers, many of which are wholly or partially government owned, such as Post Telegraph & Telephone operators ("PTTs"), deregulation is providing U.S.-based providers the opportunity to negotiate more favorable agreements with PTTs and emerging foreign providers. In addition, deregulation in certain foreign countries is enabling U.S.-based providers to establish local switching and transmission facilities in order to terminate their own traffic and begin to carry international long distance traffic originated in that country. We believe that growth of traffic originated in markets outside of the U.S. will be higher than the growth in traffic originated within the U.S. due to recent deregulation in many foreign markets, relative economic growth rates and increasing access to telecommunications facilities in emerging markets.

Our DSS Switch is an all-digital telephone switch used in central office, tandem and international gateway solutions that enable telecom and Internet service providers to enter new markets and generate new revenues. DSS Switches are modular in design and can be expanded in size from 96 to 10,240 lines enabling telecom carriers to start small and to cost effectively add telephone lines as their customer base grows.

The DSS Switch converts different signaling systems from international countries to be compatible with the signaling system used for domestic telephone calls, providing reliable, efficient, affordable international voice and data communications.

As an international gateway, the DSS Switch enables calls to be placed from the U.S. to international countries. As a central office or end office Class 5 switch, the DSS connects customers to the public switched telephone network. As a tandem Class 4 switch, the DSS connects to other switches in the public telephone network to enable long distance calls to be completed. The DSS Switch is flexible, modular and designed with an open architecture, enabling it to operate as a stand-alone product or in conjunction with products provided by other equipment manufacturers.

Carrier IP Gateway

The Carrier IP Gateway is a flexible Internet Protocol (IP) solution designed to meet the needs of domestic and international long distance carriers, local service providers and Internet access providers. Internet Protocol describes software that is used on the Internet and data networks to track addresses, to route outgoing messages and to recognize incoming messages. The Carrier IP Gateway improves the efficiency of costly dedicated long distance telephone lines by compressing and packetizing the traffic and routing it between the public telephone network, private data networks and the Internet.

The Carrier IP Gateway serves as a connection between the public telephone network, private voice and data networks and/or the Internet. The Carrier IP Gateway enables voice and fax calls to be routed over networks that use IP. When connected to our DSS Switch, the Carrier IP Gateway can be configured to use IP or other packet technologies like frame-relay or Asynchronous Transfer Mode (ATM). Frame relay is a popular type of packet technology generally used for data transmission. ATM is a high-speed transmission technology that is generally believed to be a preferred technology for high bandwidth networks and is compatible with IP technology.

Data or IP networks are more efficient and cost effective for transmitting voice traffic than the public telephone network resulting in lower operating cost, better utilization of telephone lines and the ability to add new applications that utilize both voice and data technologies. The Carrier IP Gateway is standards-based and capable of communicating with virtually any Class 5 central office or Class 4 tandem telecom switch.

Retail and Wholesale Domestic and International Long Distance Services

We also provide wholesale domestic and international long distance services, primarily to emerging and entrepreneurial carriers through a flexible network comprised of international gateway switches, leased transmission facilities and resale arrangements, operating agreement and termination arrangements with other long distance service providers, all of which enables us to complete telephone calls to more than 200 countries in Europe, Africa, Asia, the Pacific Rim, Australia, Canada, the Caribbean and Central and South America.

Our INET Interactive Network System subsidiary is a full service, facilities-based telecommunications carrier that provides retail as well as wholesale long distance services to commercial customers as well as affinity groups, such as French and Japanese speaking people in the United States. As of March 31, 1999, INET had approximately 9,900 customers who purchased approximately 16,250,000 minutes of traffic for the three months ended March 1999.

INET's retail and wholesale services include call origination to and from anywhere in the U.S. to more than 200 countries worldwide. INET also provides back office services, such as billing administration and invoice

3. Acquire IRUs (Indefeasible Right of Use) to carry our international traffic and sell excess capacity to resellers and customers. The owner of an IRU has the right to use that portion of the undersea cable for a specified period of time.

4. Use these sources of revenues (switch and gateway sales, international long distance services, customer contracts, and minutes sold on IRUs) to develop a financial mechanism to warrant further acquisitions and to extend our technology position.

   - The success of our strategy depends on our ability to provide a total solution of telecom equipment, international long distance and network services and on our capacity to find carriers that can be integrated into our network. Our success is also dependent on obtaining additional financing.

   - We believe that our decision to focus on international and "affinity-based" entrepreneurial carriers should yield positive results in creating synergies and generating increased revenues. Affinity-based carriers typically have higher margins, primarily due to focused marketing efforts, requiring less marketing expense. Such groups also typically have a stronger customer allegiance since there are group-based.

   - We also plan to market our telecom equipment, international long distance and network services in Europe, where market liberalization is in its early stages. To do so, for example, we may seek alliances with European companies to permit them to market our products and services in Europe and permitting us to market their products and services in the U.S.

   - Our joint venture, TelecomAlliance, plans to provide entrepreneurial carriers with switching equipment, long distance as well as data and Internet services, network design and operations, access to financing, facilities management, billing administration, customer support services and access to a path to voice over data networks. TelecomAlliance plans to carry up to 550 million minutes of traffic per month for its members.

   - TelecomAlliance is intended to be a stand-alone operation initially limited to up to 30 switchless resellers.

The fulfillment of our strategy is subject to a number of contingencies, including our obtaining adequate financing to pursue our objectives.

STRATEGY IMPLEMENTATION

General Framework

We have identified initiatives to turn our strategic vision into reality.

Consolidating and Expanding Our Technology Position

We plan to continue to develop, acquire, take equity positions in and/or contract with companies that have leading-edge technologies and that serve customers with cost-competitive solutions, including IP gateways, alternative transmission and packet- and revenue-generating applications. For example, our Carrier IP Gateway combines the high bandwidth efficiency of an IP link with compression equipment, improving the efficiency of costly dedicated long distance lines. Besides being more efficient, new networks, such as IP, ATM and the Internet, typically bypass conventional long distance carriers, who must pay local access charges.

We plan to bundle local, long distance, data and video services in focused markets to better serve our customers with value-added, cost-competitive solutions. We also plan to add Internet services, international facilities and IRUs.

Our equipment sales are targeted to entrepreneurial carriers, such as competitive local exchange carriers, switchless resellers and international and domestic long distance providers. Many of the equipment sales are coupled with service contracts or contemplate additional equipment sales as the end-user customer progresses with the implementation of their business plan. Our receipt of the additional service or equipment revenues is subject to the ability of our customers to implement their business plans. In many instances, we facilitate sales by arranging for third party lease financing. In such instances, we often provide warrants and other financial inducements to the lease company to facilitate the financing.

We primarily market our wholesale long distance services directly to carriers and through independent agents. We primarily market our retail long distance services through our agents and focused sales and marketing activities, e.g., advertising in local ethnic newspapers.

Customers and Customer Concentration

Our equipment products are targeted at markets for small-to-medium sized telecom switches and IP gateways. Potential customers for our telecommunications equipment include, among others, entrepreneurial telecommunications carriers such as competitive local exchange carriers, switchless resellers, incumbent local exchange carriers, wholesale and retail international and domestic long distance providers and Internet service providers. We market retail international long distance services to affinity groups. Our equipment revenues in fiscal 1999 were from shipments to 16 end-user customers, seven of which were sold through third party lessors and which accounted for approximately 93% of the total equipment revenues. In fiscal 1998, we shipped equipment to 12 customers, one of which accounted for approximately 40% of total equipment revenues.

Among the companies that have taken delivery of our switches are Apollo Telecom, BD Communications, Cellular XL, Concentric Network Corporation, Crescent Communications, Dakota Carrier Services, DTA/I:COMM Networks, Lightcom International, Inc., Mercury Telecom (USA), Mony Travel Inc., Rhinos International, Telesys S.A., Vancouver Telephone Company, Wireless USA and WorldWave Communications.

While our customer base continues to grow, many of our customers are entrepreneurial carriers with limited financial resources. Their ability to pay for our equipment and services is often dependent on obtaining third party financing. The timeliness of such financings will continue to be an important ingredient in our results. Our recent agreements with RCC Finance and PrinVest are aimed at providing this necessary part of our program. In certain of these lease transactions, we issue warrants and other financial inducements to the leasing company to facilitate financing to our end-user customer. We recognize profit on these transactions as payments are received.

A component of our long-term strategy is our expansion into international markets as evidenced by our investment in Systeam, S.p.A. and our OEM (original equipment manufacturer) agreement with Tokyo-based Apollo KK. In order to effect this strategy, we are seeking strategic alliances with companies that have established international distribution channels. We also recently obtained a Class II carrier license and a point of presence in Japan. A Class II license enables us to originate and terminate traffic in that country and a point of presence is the physical place where a long distance carrier connects to a local exchange carrier's network.

Our wholesale international long distance services are offered primarily to U.S.-based entrepreneurial carriers.

Customer Service and Support

We service and provide support for our products and services. We, or an authorized third party, provide customer training in connection with the installation of our products and services. We have entered into agreements with third parties, including certain suppliers of equipment incorporated into our products, to includes the manufacturing or procurement of board, chassis, and system level assemblies. We conduct final assembly and testing of our products at our facilities and then ship the products directly to our end-user customer sites via a third-party transportation company.

Certain software and hardware associated with adjunct and peripheral equipment to provide certain functions and features are licensed or procured under OEM arrangements from other vendors.

Proprietary Rights

We use a combination of trade secrets, industry know-how, confidentiality, non-compete agreements and tight control of our software to protect the products and features that we believe give us competitive advantages. We are currently engaged in litigation alleging that our use of the name Coyote infringes on the rights of the plaintiff.

Wholesale and Retail Facilities

We provide long distance service to international countries through a flexible network comprised of various foreign termination relationships, international gateway switches, leased facilities and resale arrangements with long distance providers. We plan to grow our revenues by capitalizing on the deregulation of international telecommunications markets.

Competition in the Telecommunications Industry

The telecommunications equipment markets are highly competitive. We compete with telecommunications equipment providers, including Nortel, Cisco Systems, Lucent Technologies, Newbridge Networks, and Digital Switch Corporation, which have the resources and expertise to compete in the smaller-scale telecom switch and IP gateway market. In addition, it is possible that large communication carriers with financial resources significantly greater than ours may enter the telecom equipment market. Some of these large carriers, such as AT&T, MCI Worldcom and Sprint, could initiate and support prolonged price competition to gain market share.

The international telecommunications long distance market is also intensely competitive and subject to rapid change. Our competitors in the international wholesale long distance market and the retail international long distance market include:

- large, multinational corporations;
- smaller service providers in the U.S. and overseas that have emerged as a result of deregulation;
- switchless and switch-based resellers of international long distance services;
- international joint ventures and alliances;
- dominant telecommunications operators that previously held various monopolies established by law over the telecommunications traffic in their countries; and
- U.S. based and foreign long-distance providers that have the authority from the Federal Communications Commission (the "FCC") to resell and terminate international telecommunications services.

Many of these competitors have considerably greater financial and other resources and more extensive domestic and international communications networks than us. In addition, consolidation in the telecommunications industry could create even larger competitors with greater financial and other resources, and could also affect us by reducing the number of potential customers for our services.

for us and for our competitors. However, the precise scope and timing of the implementation of the WTO Agreement remain uncertain and there can be no assurance that the WTO Agreement will result in beneficial regulatory liberalization.

We have a "Special Type II Telecommunications Carrier" license that allows us to originate and terminate traffic in Japan. As such, we must comply with the provisions of the Japanese Telecommunications Business Law and the Japanese Ministry of Post and Telecommunications (MPT) "Three Year program for the Promotion of Deregulation" and related laws on the "Rationalization of Regulatory Frameworks in the Telecommunications Field." A Special Type II license provides us with certain privileges and responsibilities, e.g., we must have two certified switch engineers in Japan and we must file periodic reports with the MPT.

Environmental Regulation

Compliance with federal, state and local regulations relating to environmental protection has not had a material effect upon our capital expenditures, operating results or competitive position.

Employees

As of May 27, 1999, we had 154 employees. In addition, we retain from time to time, on a contract basis, a number of people for specific projects. We believe that our future growth and success will depend in large part upon our ability to continue to attract and retain highly qualified people. We have no collective bargaining agreement with our employees.

IRU – Indefeasible right of use. A measure of currency in the underseas cable business. The owner of the IRU has the right to use that portion of the cable for the time provided for.

ISP – Internet Service Provider.

Landing Rights – The right to carry traffic into and out of a country. The respective governments grant the carrier the right to bring traffic into or out of a country.

LAN – Local Area Network.

OEM – Original Equipment Manufacturer.

Point of Presence – POP - Physical place where a long distance carrier connects with a local exchange carrier's network.

Ports – An entrance to or exit from a device or an entire network.

PTT – Post Telephone & Telegraph – PTTs provide telephone and telecommunications services in most foreign countries. Their governments have traditionally owned them. In some countries, privatization and deregulation have mapped a future with less government control for some PTTs.

PSTN – Public Switched Telephone Network – The public telephone network.

Public Internet – The Internet, a public network using IP. There are also private or dedicated IP networks which are not part of the public Internet.

SSA – Switch Server Architecture – A network architecture strategy developed by Coyote Technologies, LLC, which allows interworking of voice and data networks and the applications operating on these networks.

Server – A shared computer on a network that can be as simple as a regular PC on a local network set aside to handle print request to a single printer. Usually, it is the fastest PC or workstation or largest computer around. It may be used as a depository and a distributor of large amounts of data. It may also be the gatekeeper controlling access to voice mail, electronic mail, facsimile services and other applications. Today, servers can be found throughout local area networks and across wide area networks, including the Internet. Generally, they can be characterized as applications platforms. In some contextual uses of the word server, the word refers only to software running on the application platform. Generally, however, server refers to hardware, operating systems, and applications software.

SS7 – Signaling System 7 – A signaling system that works with the telephone network to improve call processing and allows for more advanced network applications to work with the telephone network. In the United States, SS7-ANSI is the prevailing standard. Outside the United States, SS7-ITU (or sometimes referred to as C7) is the prevailing standard.

Switchless Reseller – A reseller of long distance (or local) services who does not own a telephone switch. These carriers must arrange for leasing of switch capacity from other carriers.

Switched Reseller – A reseller of long distance (or local) services who own at least one telephone switch.

T1 – A digital transmission link with the capacity of 1,544,000 BPS. A T1 uses two pairs of normal copper wires, the same wires utilized in homes. A T1 can be channelized into 24 voice or data channels, each handling 64,000 BPS. A T1 may also be utilized for ISDN-PRI and advanced services including Fame Relay, IP and ATM. T1 is the unit of base telephone trunking in the United States. Overseas, E1 is the standard.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock was listed on The Nasdaq National Market under the symbol CYOE on November 5, 1998. Prior to such date, our common stock was included for quotation on the NASD OTC Bulletin Board under the symbol CYOE. The table below sets forth by quarter, the high and low sales prices of our common stock on The Nasdaq National Market, and the high and low bid prices per share for our common stock obtained from trading reports of The Nasdaq National Market subsequent to November 5, 1998. The sales prices have been adjusted to reflect the 5% stock dividend paid on November 4, 1998. Prices set forth below from prior to our November 5, 1998, listing on The Nasdaq National Market reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	FISCAL 1999			FISCAL 1998	
Quarter	High	Low	Quarter	High	Low
First	$ 9.167	$ 3.720	First	$ 5.580	$ 1.235
Second	10.119	4.533	Second	9.762	2.679
Third	16.500	6.071	Third	8.274	4.539
Fourth	$ 9.125	$ 4.125	Fourth	$ 6.429	$ 3.303

At June 11, 1999, we had 1,224 stockholders of record.

We have not declared any cash dividends during the last three fiscal years. We have no plans to pay cash dividends on our common stock in the foreseeable future. The payment of cash dividends on our common stock is restricted by our subordinated debentures, which provide that our consolidated tangible net worth cannot be reduced to less than an amount equal to the aggregate principal amount of the subordinated debentures ($1,254,000 as of June 25, 1999).

Sales and Issuance of Unregistered Securities

None except as described below and as previously disclosed in reports filed pursuant to the Securities and Exchange Act of 1934.

In June 1999, in connection with lease financing provided to our end-user customers, we issued three warrants to PrinVest Financial Corporation, a third-party leasing company. Each of these warrants is to purchase 30,000 shares of common stock and may be exercised for three years from the date of issuance at $3.56, $5.56 and $7.56, per share, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

In November 1996, we made a strategic decision to dispose of all of our non-telecommunications switch business segments (the "Restructuring"). Subsequently, on February 3, 1997, our Board of Directors approved the sale of Atlanta Provision Company to Colorado Boxed Beef Company. On November 20, 1997, we completed the sale of our telecommunications equipment and distributor subsidiary, C&L Communications, Inc. to the management of C&L. In March 1998, we reached an agreement for the sale of our 80% owned wire installation and service subsidiary, Valley Communications, Inc., to Technology Services Corporation. As part of the Restructuring, our Board of Directors approved plans changing our name to Coyote Network Systems, Inc. and in November 1997, our shareholders approved the name change. Subsequently, the name of our telecommunications equipment subsidiary, Sattel Communications LLC, was changed to Coyote Technologies, LLC ("CTL"). Based in Richardson, Texas, CTL has granted subordinated equity participation interests, which amount to approximately a 20% effective ownership interest in CTL, to certain of our employees. These participation interests are convertible into shares of our common stock at the option of the holder.

In April 1998, our subsidiary, Coyote Gateway, LLC ("CGL"), acquired substantially all of the assets of privately held American Gateway Telecommunications, Inc. ("AGT"), a provider of wholesale international long distance services, primarily to entrepreneurial carriers. In consideration of the asset transfer, AGT received a 20% ownership interest in CGL. CGL continues to operate under the name of AGT. Based in Richardson, Texas, AGT provides wholesale long distance service to international countries through a network comprised of foreign termination agreements, international gateway switches, leased transmission facilities and resale arrangements with other long distance providers. AGT is leveraging CTL's scalable DSS Switch to route international long distance calls. The DSS Switch enables AGT to enter new markets and capture calls at a low per minute, per customer cost creating a competitive advantage over traditional wireline carriers.

On September 30, 1998, we completed the acquisition of INET Interactive Network System, Inc. ("INET"), through the merger of INET into one of our wholly owned subsidiaries. INET provides international long distance services to commercial and residential "affinity" groups. Headquartered in Los Angeles, California, INET markets international long distance services, primarily to French and Japanese speaking people in the U.S. INET provides a range of long distance services including 1+ direct dialing. Other telephone services include 1-800/888 numbers, calling card and prepaid debit card services, international callback, security codes, and access codes. For high volume customers, INET provides tailored services including customized billing, telemanagement reports, and call analysis.

In November 1998, we announced the formation of a joint venture, TelecomAlliance, with Profitec, Inc. TelecomAlliance is designed to enhance the growth and liquidity of entrepreneurial carriers. TelecomAlliance plans to develop and manage a new telecom network, combining voice and data transmission services, as well as back office services, e.g., billing, customer service and service provisioning. TelecomAlliance plans to provide its member companies with wholesale long distance and Internet services at new price points. TelecomAlliance intends to build a facilities-based network with its own switching equipment and co-location arrangements and intends to contract with nationwide carriers for communications routes. While we have no financing commitments to TelecomAlliance, we are committed to provide certain services and to provide switching equipment at prevailing market prices. TelecomAlliance is planned to be a self-funded operation. To date, TelecomAlliance has completed market research, marketing communications and network design. Our long distance service subsidiary, INET, has contracted to be a member of the alliance and is currently the sole member. TelecomAlliance is not yet processing traffic. Profitec, based in Wallingford, CT, provides billing, back office and financial services to the telecom reseller market.

The revenue generated from sales of switching equipment is $36.6 million in fiscal 1999 with a gross margin of 37%. If the fiscal 1999 gross margin for the switching equipment were not impacted by the security deposits and profit deferral, the gross margin on revenue of $36.6 million would be $19.0 million, or 52%. The international long distance service subsidiaries that were acquired during fiscal 1999 generated a gross margin of $0.9 million, or 13% of long distance service revenues.

The total gross margin for all lines of business for fiscal 1999 is $14.6 million, or 34% of total revenues, as compared with the fiscal 1998 gross margin of $2.0 million, or 38% of total revenues. In fiscal 1998, all of the revenues were derived from the sale of switching equipment systems.

Selling, general and administrative expenses for fiscal 1999 were $17.4 million versus $13.2 million for the same period last year. This increase is primarily related to the additional operating expenses incurred by the recently acquired long distance service provider subsidiaries and the increased sales commissions and expenses associated with the significant increase in switching equipment sales.

Engineering, research and development expenses for fiscal 1999 are $9.5 million, or 22% of sales, as compared with $5.0 million, or 92% of sales, for the prior fiscal year. We have continued to enhance product offerings to meet current and anticipated customer demand, including further refinement of our client/server architecture on our switch and the development of voice over Internet Protocol.

The operating loss for fiscal 1999 is $12.4 million versus a fiscal 1998 loss of $21.7 million. The improvement over the prior year is primarily the result of the increase in gross profit generated by the increase in revenues and partially offset by increased operating expenses, including engineering, research and development activity.

Interest expense for fiscal 1999 is $1.9 million versus $2.3 million for the prior year. The prior year included a $1.9 million charge related to the discount from market value of the common stock issued upon conversion of the 8% convertible notes issued in principal amounts of $2.5 million and $5.0 million in July 1997 and December 1997, respectively. The 1999 fiscal year expense of $1.9 million is comprised primarily of financing costs related to the operations of the international long distance service subsidiaries.

Non-operating income for fiscal 1999 is $0.4 million versus the fiscal 1998 expense of $0.1 million. The current year includes an expense of $0.6 million associated with issuing warrants as part of securing financing and other charges of $0.2 million. Offsetting the expense charges is a gain of $0.9 million related to the sale of Concentric Network Corporation securities and interest income of $0.3 million. Fiscal 1998 non-operating expense of $0.1 million was primarily due to a loss on the sale of securities.

The net loss for continuing operations for fiscal 1999 is $13.8 million versus the prior period net loss of $34.2 million. The fiscal 1999 loss represents a basic and fully diluted loss per common share of $1.41 versus a comparable loss of $4.60 for the prior year. The loss from discontinued operations for fiscal 1999 is $0.9 million and increases the basic and fully diluted per share loss to $1.50. The fiscal 1998 loss of $34.2 million included a non-cash expense of $5.5 million related to potential conversion of Class A and B units and a non-cash expense of $8.0 million for warrants anticipated to be issued in connection with securities litigation.

Results of Operations – Fiscal Year Ended March 31, 1998 versus March 31, 1997

CTL had revenues of $5.4 million in fiscal 1998, primarily from the sale of DSS Switches, compared to revenues of $7.2 million in fiscal 1997. Revenues in fiscal 1998 included shipments to nine new customers. One of the sales contracts, which accounted for approximately 40% of the total revenue for fiscal 1998, involved INET, a company that was one of our potential acquisition targets and which we subsequently acquired. The sale, which involved a third party lessor, occurred in March 1998. We have deferred recognition of gross profit on this sale as if the potential acquisition target was an affiliate at the time of the sale (in effect, we eliminated profit on the

Liquidity and Capital Resources

As of March 31, 1999, we had a negative working capital of $0.7 million. In May 1999, as part of our efforts to provide additional working capital, we received $10.2 million in net proceeds from a private placement. The placement agent received cash commissions of $352,000 and commissions in the form of common stock aggregating 131,148 shares and five-year warrants to purchase 176,700 shares at $6.00 per share. From the net proceeds of this placement, we paid $4 million to redeem 100 shares of the 700 shares of 5% Series A Convertible Preferred Stock which were issued and outstanding as at March 31, 1999. In connection with the redemption, the conversion price of the remaining $6 million of Convertible Preferred Stock was fixed at $6.00 per share and we issued the holder of the Convertible Preferred Stock 18-month warrants to purchase 325,000 shares of common stock at $6.00 per share.

In July 1999, we received an offer for a commitment for a stand-by credit facility from certain shareholders that would provide a funding commitment to us of $3.5 million. This facility would be secured by the stock of INET, bear 12.5% interest on the outstanding principal balance and be repayable on March 31, 2000. We intend to enter into a definitive agreement only if these funds are needed to support the operation. The Company has also entered into an agreement to sell its shares of iCompression, Inc. for $1.9 million. The agreement was consummated and we received $1.9 million in July 1999.

In February 1999, we entered into definitive agreements with AMAC of Minnesota, Inc. for a loan to us of $10.0 million. This loan was intended to be for a five-year term, bear interest at 8% per year and be secured by our common stock. Despite repeated assurances that the funding was forthcoming, AMAC has not fulfilled its commitment, the loan has not been received, is long overdue and there can be no assurance that it will be received. We are now considering what course of action to take.

We used cash from operating activities of $6.1 million during fiscal 1999 compared to using $8.5 million during fiscal 1998. This improvement in operating cash flow in fiscal 1999 is primarily due to the improvement in the operating profit generated by the 704% increase in revenues over fiscal 1998.

We used cash for investing activities of $4.5 million during fiscal 1999 compared to $14,000 provided from investing activities in fiscal 1998. Capital expenditures on equipment purchases and software of $4.8 million in fiscal 1999 represented an increase of $4.2 million above the prior fiscal year. Purchases were primarily for additional computer and test equipment required to support the switching equipment segment of the business and software for certain internet protocol and compression capabilities.

Net cash used in investing activities in fiscal 1999 also included cash paid in connection with increases in investment in affiliates and acquisitions of $1.7 million. We gained $0.9 million from the sale of investments in fiscal 1999. In fiscal 1999, we received net cash proceeds of $6.3 million from the issuance of 700 shares of 5% Series A Convertible Preferred Stock and warrants, a portion of which we redeemed for $4 million and warrants in fiscal 2000. (See Note 8 to the Consolidated Financial Statements).

As of March 31, 1999, we have notes payable of $8.2 million. These notes are secured by certain of our assets and by 708,692 shares of our common stock and bear interest at the bank's prime rate (currently 7.75%) plus ½%. These notes were due on demand. In July 1999, the payment date was extended to December 2001. In addition, we have capital lease obligations of $2.6 million at March 31, 1999, payable through 2004 and a note payable of $0.4 million due February 2000.

We also have a $2.2 million revolving line of credit secured against certain trade receivables. As at March 31, 1999, $1.1 million has been drawn against the line, which bears interest at the bank's prime rate plus 4%. The line of credit expires on February 29, 2000. We have a long-term obligation in the amount of $1.7 million in

RISK FACTORS

We Have Only Recently Entered The Telecommunications Industry And Have A Limited Operating History In Such Industry; Therefore, We Expect To Encounter Risks Frequently Faced By New Entrants Into This Rapidly Evolving Market.

Although we were originally incorporated in 1961, we did not enter the telecommunications industry until 1994. Accordingly, we have a limited operating history in the telecommunications business upon which you can evaluate our current business and we are subject to the risks typically encountered in a relatively new business. In order to be successful, we must increase the level of sales of our products and services, and increase their acceptance in the marketplace. Some of the risks and uncertainties we face while we continue to develop our experience in this market relate to our ability to:

- sell our products and services;
- generate significant revenues from our sale of long distance minutes;
- integrate acquired businesses, technologies and services; and
- respond to rapidly changing technologies and competitors' development of similar products.

If we are unable to accomplish these objectives, it could have a material adverse effect on our business.

We Have Experienced And May Continue To Experience Operating Losses And Negative Cash Flow From Operations, And Our Future Profitability Remains Uncertain.

Our ability to achieve profitability and positive cash flow from operations is uncertain. We have incurred substantial costs in growing our business and by acquiring complementary businesses and technologies. For the last four fiscal years, we incurred losses from our continuing operations. Our net sales during the same period, $264,000 in the 1996 fiscal year, $7,154,000 in the 1997 fiscal year, $5,387,000 in the 1998 fiscal year and $43,318,000 in the 1999 year, did not offset our operating losses in each of these years. In addition, we experienced negative cash flow from operations of $17,859,000, $8,475,000 and $6,125,000, in fiscal years 1997, 1998 and 1999, respectively. To achieve profitability and positive cash flow, we must increase the sales of our products and services. Even if we do achieve profitability and positive cash flow, we may not sustain or increase profitability and positive cash flow in the future.

We Have Negative Working Capital And Will Require Substantial Additional Financing To Carry Out Our Business Plan.

As of March 31, 1999, we had negative working capital of $659,000. Although, available funds and cash flow from operations will enable us to meet our anticipated working capital needs over the next 12 months our current business plan contemplates growth through acquisitions, which would require substantial additional financing and we cannot assure you that the required additional financing will be available to us on favorable terms or at all. If we are unable to obtain adequate funds at all or on acceptable terms, we may have to reduce the scope of our planned expansion of operations; we may also be unable to take advantage of acquisition opportunities, develop or enhance services or respond to competitive or business pressures, all of which could have a material adverse effect on our business, results of operations and financial condition.

In addition, until we achieve higher sales and more favorable operating results, our ability to obtain funding from outside sources of capital could be restricted. Although our short-term liquidity has improved recently, we

- retain the 30 million minutes of communications traffic it had letters of intent for at the time of our agreement in September 1998;

- obtain additional commitments for minutes of communications traffic; and

- translate those minutes and commitments into successful operations and cash flows.

We will not deliver any additional equipment to Crescent unless it first obtains third party financing. We cannot control the development of Crescent or its business and we may not receive any additional revenue from sales of our equipment to Crescent through Comdisco or another third party, or from sales of our services directly to Crescent.

Our Operating Results Vary Significantly, Which Could Adversely Affect Our Ability To Manage Our Expenses In Any Given Period And Could Also Affect Our Stock Price.

Our quarterly operating results have fluctuated and may continue to fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. As a result, we believe that period-to-period comparisons of our operating results may not be meaningful, especially as indicators of our future performance. In addition, it is difficult for us to predict the occurrence of factors which may lead to such fluctuation. Because we base our expense levels in part on expectations regarding future sales, we may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in sales. A significant shortfall in demand relative to our expectations, or a material delay in customer orders, could have a material adverse effect on us. Some of the factors which cause fluctuation include:

- fluctuations in the volume of calls, particularly in regions with relatively high per-minute rates;

- the addition or loss of a major customer;

- the loss of economically beneficial routing options for our traffic;

- pricing pressure resulting from increased competition;

- market acceptance of new or advanced versions of our products;

- technical difficulties or failures with portions of our network;

- fluctuations in the rates charged by carriers for our traffic and in other costs associated with obtaining rights to switching and other transmission facilities; and

- changes in the staffing levels of our sales, marketing and technical support and administrative personnel.

Changes in or difficulties experienced by our customers in fulfilling their business plans, economic conditions and related financing have caused some of our customers to not meet previously announced estimated purchase requirements. In addition, some of our contracts contemplate the purchase of additional equipment or the provision by us of maintenance and other services, which are dependent on our customers installing their equipment, placing it into service and otherwise fulfilling their business plans, which may not occur on a timely basis or at all.

Our Products May Become Obsolete Or Incompatible With Emerging Technologies.

Our potential customers, including other telecommunications companies, may choose to buy other emerging products that use different technologies but serve the same purposes as our products. Our products may also be technologically incompatible with the systems of our potential customers. The telecommunications industry and its technology are evolving rapidly, and new products and services are constantly being introduced into the marketplace which may render our products technology obsolete. Products which involve the use of the Internet for international voice and data communications are among the new products which compete with ours, including our Carrier IP Gateway. If we are unable to conform our operations, products and services to new technological developments and compete with other sellers of telecommunications products, our product sales could decrease or we may be unable to sell our products.

The Telecommunications Industry Is Highly Competitive And We May Not Be Able To Compete Successfully.

We sell our products, including our DSS Switch and our Carrier IP Gateway, in competition with several other sellers of similar telecommunications equipment. Some of our competitors include Nortel, Cisco Systems, Lucent Technologies, Newbridge Networks and Digital Switch Corporation. Many of our competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we do. In addition, it is possible that large telecommunications companies with significantly greater financial resources than ours, including AT&T Corporation, MCI Worldcom Communications and Sprint, could begin selling products similar to our DSS Switch and Carrier IP Gateway. Such potential competitors have the financial and other resources necessary to engage in prolonged price competition to gain market share, which could force us to lower our prices and reduce the profitability of sales. This could have a material adverse effect on our business, results of operations and financial condition.

The international telecommunications industry is also intensely competitive and subject to rapid change. American Gateway Telecommunications' competitors in the international wholesale long distance market and INET's competitors in the retail international long distance market include:

- multinational corporations;
- service providers in the U.S. and overseas that have emerged as a result of deregulation;;
- switchless and switch-based resellers of international long distance services;
- joint ventures and alliances among such companies;
- dominant telecommunications operators that previously held various monopolies established by law over the telecommunications traffic in their countries; and
- U.S. based and foreign long-distance providers that have the authority from the Federal Communications Commission to resell and terminate international telecommunications services.

In addition, consolidation in the telecommunications industry could not only create even larger competitors with greater financial and other resources, but could also affect us by reducing the number of potential customers for our services.

International competition also may increase as a result of the competitive opportunities created by a new Basic Telecommunications Agreement concluded by members of the World Trade Organization in April 1997. Under the terms of such agreement, starting February 1998, the United States and more than 65 countries have committed to

If The Protection Of Our Intellectual Property Rights Is Inadequate Or If Third Parties Subject Us To Claims Of Infringement, Our Business May Be Materially And Adversely Affected.

We rely on a combination of trade secrets, confidentiality and non-compete agreements to protect our products and their specific features. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Competitors may also independently develop technologies that are substantially equivalent or superior to ours. Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which we market our products and services. Our failure to protect our intellectual property rights and proprietary information could enable others to build products comparable or superior to ours.

We cannot assure you that the steps taken by us will prevent misappropriation of our technology or that the agreements entered into for that purpose will be enforceable. Litigation may be necessary to enforce or protect our intellectual property rights or to defend against claims of infringement. Litigation for these purposes could be costly and could divert the attention of our management from day-to-day operations, which could have a material adverse effect on our business, results of operations and financial condition. A negative outcome in intellectual property litigation could cost us our proprietary rights, subject us to significant liabilities, require us to seek licenses from third parties (which they may not be willing to grant) or prevent us from manufacturing or selling our products, all of which could have a material adverse affect on our business, results of operations and financial condition. We are currently involved in litigation to defend a claim that our use of the name "Coyote" infringes on the rights of the plaintiff. We cannot assure you that we will prevail in this litigation.

We Have Historically Made Equipment Sales To A Limited Number Of Customers And The Loss Of One Or More Major Customers Could Materially And Adversely Affect Our Business.

We made shipments of our products to 16 customers in fiscal year 1999, seven of which accounted for approximately 93% of our total equipment revenues. Customers accounting for 10% or more of total equipment revenues were Crescent Communications, Inc. (30%), Dakota Carrier Services (19%), Wireless USA, Inc. (17%) and DTA/I:COMM Networks (11%). In fiscal year 1998, we made shipments to 12 customers. One customer, INET Interactive Network System, Inc., accounted for approximately 40% of our total revenues and Apollo Telecom, Inc. accounted for 20% of total revenues. In fiscal year 1997, 94% of our revenues came from sales to Concentric Network. We expect that our dependence on sales to a limited number of customers will continue, and the loss of one or more of our major customers could have a material adverse effect on our business, results of operations and financial condition.

Our Future Success Depends On Our Ability To Effectively Manage Our Growth And Retain Skilled Personnel.

We have experienced growth in the number of our employees and the scope of our operations. To manage potential future growth of our operations, we must improve our operational, financial and management information systems. We will also be required to expand, train, motivate and manage our employee base on a timely basis. We face intense competition in the market for qualified technical, sales, marketing, network operations and management personnel and our success will depend on our ability to attract and retain them. We have in the past experienced delays in filling sales and engineering positions. We may not be able to achieve or manage growth, and our inability to do so could delay our development of new products and our enhancement of existing products, which could have a material adverse effect on our business, results of operations and financial condition.

We Do Not Anticipate Paying Cash Dividends.

We have not paid cash dividends on our common stock to stockholders in the last six years. Payment of dividends on our common stock is within the discretion of our Board of Directors and will depend upon our earnings, capital

- adoption of new accounting standards affecting the telecommunications industry;
- changes in recommendations and estimates by securities analysts; and
- general market conditions and other factors.

These fluctuations may adversely affect the market price of our common stock which could affect our ability to use such stock as consideration for acquisitions and to raise financing.

Options, Warrants, Convertible Securities And Other Commitments To Issue Common Stock May Dilute The Value Of The Common Stock.

As of August 31, 1999, we had outstanding warrants and options to issue up to 6,102,818 shares of common stock, convertible securities convertible into up to 1,000,000 shares of common stock, and 708,692 treasury shares pledged to PrinVest Financial Corporation, one of our lenders, which may become outstanding upon a default under the loan. If the common stock underlying such options, warrants, convertible securities and commitments were issued, it could dilute the book value per share, earnings per share and voting power of outstanding capital stock.

Existing Stockholders May Be Able To Exercise Significant Control Over Us.

As of August 31, 1999, our officers and directors, as a group, beneficially owned 7.4% of our outstanding common stock. In addition, according to filed Schedules 13D and 13G, as of the dates of such filings, Alan J. Andreini beneficially owned 9.0% and the Kiskiminetas Springs School owned 8.0% of our common stock. Additionally, Richard L. Haydon beneficially owned 11.5% of our common stock, JNC Opportunity Fund beneficially owned 4.999% of our common stock and Ardent Research Partners beneficially owned 4.5% of our common stock. Such stockholders may have significant influence on us, including influence over the outcome of any matter submitted to a vote of the stockholders, including the election of directors and the approval of significant corporate transactions.

If Our Products, Software, Computer Technology And Other Systems Are Not Year 2000 Compliant, Our Business Will Be Materially And Adversely Affected.

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. In other words, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions of operations, including, among others, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

We have completed a comprehensive assessment of our principal products operating systems and our internal systems to identify those that may be affected by the Year 2000 issue. Based on our testing, we believe that our customer products and our internal computer systems are Year 2000 compliant. However, if we are not Year 2000 compliant, it could impair our ability to process and deliver customer orders, manufacture compliant equipment and perform other critical business functions, which could have a material adverse effect on our business, results of operations and financial condition. We could also be subjected to claims against us for the non-compliance of our products. The costs of defending and settling such claims could have a material adverse affect on our financial condition.

Because we believe that we are currently Year 2000 compliant, we do not have a formal contingency plan in the event that an area of our operation does not become Year 2000 compliant. We will adopt a formal plan if we believe that a part of our internal systems or those of a critical third party will be non-compliant. If we are wrong, our failure to prepare a contingency plan will likely exacerbate the problem. Our Year 2000 due diligence

ITEM 7a. QUALITATIVE AND QUANTITATIVE MARKET RISK DISCLOSURES

Our primary market risk exposure is interest rate risk related to our borrowings on notes payable and under our revolving line of credit.

Interest Rate Sensitivity Model

The table below presents the principal (or notional) amounts and related interest of our borrowings by expected maturity dates. The table presents the borrowings that are sensitive to changes in interest rates and the effect on interest expense of future hypothetical changes in such rates.

	Year Ending March 31 (U.S. Dollars – Thousands)			
	1999	2000	2001	2002
Notes payables	$8,180	$6,000	$3,000	$ ---
Interest expense (A)	675	495	248	---
Interest expense (B)	---	555	278	---
Interest expense (C)	---	435	218	---
Line of credit borrowings	1,133	1,000	500	500
Interest expense (A)	133	118	59	59
Interest expense (B)	---	128	64	64
Interest expense (C)	---	108	54	54

- The borrowings bear interest at the bank's prime rate plus ½% and 4% for the notes payable and line of credit, respectively.
- The interest expense shown for line (A) is based upon the actual bank's prime rate at March 31, 1999 of 7.75%.
- The interest expense shown for line (B) is based upon a hypothetical increase of one percentage point in the bank's prime rate to 8.75%.
- The interest expense shown for line (C) is based upon a hypothetical decrease of one percentage point in the bank's prime rate to 6.75%.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
Coyote Network Systems, Inc.

We have audited the accompanying consolidated balance sheet of Coyote Network Systems, Inc. (a Delaware corporation and formerly, The Diana Corporation) and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' 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 generally accepted auditing standards. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Coyote Network Systems, Inc. and its subsidiaries as of March 31, 1999 and 1998, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP
Los Angeles, California
July 13, 1999

COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in Thousands)

Assets	March 31, 1999	March 31, 1998
Current assets:		
Cash and cash equivalents	$ 1,225	$ 3,746
Marketable securities	---	16
Receivables, net of allowance of $402 and $480 at March 31, 1999 and 1998, respectively	12,292	715
Inventories	2,130	2,122
Notes receivable – current	2,367	4,596
Other current assets	4,323	1,409
Total current assets	22,337	12,604
Property and equipment, net	8,192	2,391
Capitalized software development	1,604	---
Intangible assets, net	5,620	3,542
Net assets of discontinued operations	234	909
Notes receivable – non-current	871	1,170
Investments	1,550	750
Other assets	620	609
	$ 41,028	$21,975
Liabilities and Shareholders' Equity		
Current liabilities:		
Lines of credit	$ 1,133	$ ---
Accounts payable	8,161	1,920
Deferred revenue and customer deposits	7,811	1,900
Accrued loss reserve	---	2,200
Accrued professional fees and litigation costs	676	805
Other accrued liabilities	3,900	1,130
Current portion of long-term debt and capital lease obligations	1,315	141
Total current liabilities	22,996	8,096
Notes payable	8,183	---
Long-term debt	1,534	5,349
Capital lease obligations	1,830	---
Other liabilities	428	470
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock - $.01 par value: authorized 5,000,000 shares, 700 issued, liquidation preference of $10,000 per share	7,000	---
Common stock - $1 par value: authorized 30,000,000 shares, issued 11,167,456 and 9,151,920 shares	11,167	9,152
Additional paid-in capital	109,649	102,360
Accumulated deficit	(116,002)	(97,695)
Treasury stock at cost	(5,757)	(5,757)
Total Shareholders' equity	6,057	8,060
	$ 41,028	$21,975

See notes to consolidated financial statements.

COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in Thousands)

		COMMON STOCK					TREASURY STOCK		
	Preferred Stock Amount	Number of Shares	Par Value	Additional Paid in Capital	Accumulated Deficit	Unrealized Loss on Marketable Securities	Number of Shares	Cost	Total Shareholders' Equity
Balance at March 30, 1996	**$ ---**	**5,526,282**	**$5,526**	**$59,456**	**$ (34,776)**	**$ (876)**	**877,692**	**$ (4,644)**	**$ 24,686**
Net loss	---	---	---	---	(21,018)	---	---	---	(21,018)
5% stock dividend	---	250,893	251	7,474	(7,746)	---	---	---	(21)
Realized loss on securities	---	---	---	---	---	876	---	---	876
Acquisition of SCC minority interest, net	---	---	---	385	---	---	35,000	(2,203)	(1,818
Issuance of common stock	---	230,000	230	12,630	---	---	(200,000)	1,058	13,918
Other	---	---	---	179	---	---	(4,000)	32	211
Balance at March 31, 1997	**---**	**6,007,175**	**6,007**	**80,124**	**(63,540)**	**---**	**708,692**	**(5,757)**	**16,834**
Net loss	---	---	---	---	(34,155)	---	---	---	(34,155)
Exercise of stock options	---	442,956	443	1,812	---	---	---	---	2,255
Amendment of A & B units convertible to common stock	---	---	---	5,522	---	---	---	---	5,522
Issuance of common stock, net	---	1,880,750	1,881	1,481	---	---	---	---	3,362
Common stock issued on debt conversion	---	821,039	821	2,734	---	---	---	---	3,555
Non-cash expense	---	---	---	10,687	---	---	---	---	10,687
Balance at March 31, 1998	**---**	**9,151,920**	**9,152**	**102,360**	**(97,695)**	**---**	**708,692**	**(5,757)**	**8,060**
Net loss	---	---	---	---	(14,743)	---	---	---	(14,743)
5% stock dividend	---	497,623	497	2,859	(3,359)	---	---	---	(3[illegible]
Exercise of stock options	---	105,713	106	352	---	---	---	---	458
B Unit conversions	---	73,500	73	(73)	---	---	---	---	---
Common stock issued on debt conversion	---	1,068,750	1,069	2,337	---	---	---	---	3,406
Issuance of common stock, net	---	269,950	270	1,716	---	---	---	---	1,986
Issuance of 700 preference shares, net	7,000	---	---	(655)	---	---	---	---	6,345
Preferred share dividend	---	---	---	---	(205)	---	---	---	(205)
Non-cash warrant expense	---	---	---	753	---	---	---	---	753
Balance at March 31, 1999	**$7,000**	**11,167,456**	**$11,167**	**$109,649**	**$ (116,002)**	**$ ---**	**708,692**	**$ (5,757)**	**$ 6,057**

See notes to consolidated financial statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated group (hereafter referred to as the "Company") included the following companies during the past three years:

Coyote Network Systems, Inc. ("CNS"), formerly The Diana Corporation
CNS and its wholly owned non-operating subsidiaries are included in the consolidated group for all three fiscal years. CNS's activities historically consisted primarily of corporate administrative and investing activities.

Coyote Technologies, LLC ("CTL"), formerly Sattel Communications, LLC
Since fiscal 1997, CNS has owned 100% of Coyote Technologies, Inc. ["CTI", fka, Sattel Communications Corp. ("SCC")] (see Note 3). CTI, through its subsidiary CTL, is a provider of telecommunication switches and IP gateways. CTI has an ownership interest in CTL, a limited liability company, of approximately 80% and certain additional preferential rights (see Note 3). Its activities consist primarily of development, production and sale of scalable telecommunications switches and Internet protocol based gateway systems to telecommunications service providers.

Coyote Gateway, LLC ("CGL" dba American Gateway Telecommunications)
On April 16, 1998, the Company established Coyote Gateway, LLC, a Colorado limited liability company. The Company owns 80% of CGL, and American Gateway Telecom, Inc., a Texas corporation ("AGT") owns 20%. Its principal activities consist of the wholesaling of long distance services.

INET Interactive Network System, Inc. ("INET")
On September 30, 1998, the "Company" completed the acquisition of INET Interactive Network System, Inc. ("INET"), through the merger of INET into a wholly owned subsidiary of the Company. INET is a provider of international long distance services to commercial and residential "affinity" groups. INET markets international long distance services to primarily French and Japanese affinity groups.

Coyote Communications Services, LLC ("CCS")
Formed in January 1999, CCS provides customer support and consulting services including network integration, network design, switch provisioning, outsourcing, on-site technical support, remote monitoring, 7x24 customer support, billing administration and help desk support.

TelecomAlliance
Formed in November 1998, TelecomAlliance is a joint venture between CNS and Profitec. TelecomAlliance plans to offer its customers an alternative to traditional capital-intensive private network provisioning, with a national multi-service Internet-Protocol based platform that can be leased by a carrier to extend or supplement their current network, or to build a new network from scratch. As of March 31, 1999, TelecomAlliance was still in the organizational phase and had not commenced operations.

Investments in 20-50% owned subsidiaries in which management has the ability to exercise significant influence are accounted for using the equity method of accounting. Accounts and transactions between members of the consolidated group are eliminated in the consolidated financial statements.

Certain prior year balances have been reclassified in order to conform to current year presentation.

Non-Marketable Securities

Non-marketable securities are accounted for on a lower of cost or market basis. A write-down to market is recognized on the determination that a permanent impairment of value has occurred.

Inventories

Inventories are stated at the lower of cost or market with cost determined using the first-in, first-out method. Inventories consist of the following (in thousands):

	March 31, 1999	March 31, 1998
Raw materials and work-in-progress	$2,645	$ 2,376
Finished goods	253	152
Consigned and with customers	1,074	994
Allowance for excess and obsolete inventory	(1,842)	(1,400)
	$2,130	$2,122

Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation are computed on the straight-line method for financial reporting purposes over the estimated useful lives of the assets which range from three to eighteen years. Depreciation for income tax purposes is computed on accelerated cost recovery methods. Expenditures which substantially increase value or extend asset lives are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Property and equipment consist of the following (in thousands):

	March 31, 1999	March 31, 1998
Land	$ 0	$ 50
Fixtures and equipment	10,249	3,151
	10,249	3,201
Less accumulated depreciation	(2,057)	(810)
	$8,192	$2,391

Intangible Assets

Intangible assets, net of amortization, consist of the following (in thousands):

	March 31, 1999	March 31, 1998
Intellectual property rights	$3,316	$3,519
Goodwill	2,167	---
Other	137	23
	$5,620	$3,542

Product Warranty

Estimated product warranty costs are charged to operations at the time of shipment. Warranty costs to date have been insignificant.

Research and Development Costs

Engineering, research and development costs include all engineering charges related to new products and product improvements, and are charged to operations when incurred. Software development costs are capitalized once technological feasibility is established.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes".

Loss Per Common Share

The basic loss per common share is determined by using the weighted average number of shares of common stock outstanding during each period. Diluted loss per common share is equal to the basic loss per share. Because of the net losses in fiscal 1997, 1998 and 1999, the effect of options and warrants are not included in the calculations of loss per common share. Loss per share amounts for the years ended March 31, 1997 and 1998 have been restated to reflect the effect of the Company's 5% stock dividend on November 4, 1998.

Use of Estimates

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

Statement of Cash Flows

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with a maturity of three months or less at the date of purchase to be cash equivalents.

As of June 18, 1999, the Company had collected all cash related to the sale of discontinued operations except $410,000 due under a note and the only asset of discontinued operations was real estate related to the land and buildings of the discontinued APC operation. The real estate is listed for sale. Based upon an estimate of the current market value of the real estate, the Company took an additional charge of $900,000 in the second quarter of fiscal 1999. The asset book value as of March 31, 1999 was $234,000, net of mortgages and reserves applicable to the property.

Operating results, net of minority interest, relating to the discontinued operations for fiscal year 1997 through the measurement date of November 20, 1996 are as follows (in thousands):

	Fiscal Year Ending March 31, 1997			
	Meat and Seafood	Telecommunications Equipment	Wire Installation and Service	Total
Net sales	$188,853	$ 19,750	$ 11,540	$220,143
Earnings (loss) from discontinued operations	$ (584)	$ (51)	$ 10	$ (625)

As a result of the Company's Restructuring, its continuing operations are only those of CTL. The Conversion Rights discussed above provided the Class B Unit holders with an approximately comparable ownership interest in the Company as they have in CTL.

In September 1997, the Board of Directors authorized an amendment to certain Class B Units owned by directors and employees of CNS and CTL at June 30, 1997, to provide for the elimination of the minimum pre-tax profits measure requirement discussed above and the conversion into Company common stock at the option of the holder. Consequently, there is a compensation charge of $4,016,000 recorded in the second quarter of fiscal 1998. This charge is based on the value at September 4, 1997 of 630,000 shares of Company common stock at $6.375 per share that will be issuable to Class B Unit Holders. Assuming that Class A Units, other than those held by SCC, are convertible on the same basis as a result of the Board of Directors' authorization discussed above, an additional charge of $1,506,000 was also recorded in the second quarter of fiscal 1998 based on 236,250 shares of Company common stock and a per share price of $6.375.

In fiscal 1999, certain Class B Unit holders converted a total of 138 Units into shares of Company common stock in accordance with the amended terms for conversion. Certain current and former employees of CTL continue to collectively own 1,369 Class B Units, representing all of the Class B Units currently outstanding. The following table reflects the current ownership of the Class B Units by the management of CTL and others as of June 15, 1999:

Name	Class B Units
James J. Fiedler	350
Daniel W. Latham	212
David Held	250
Bruce Thomas	250
Others	307
	1,369

considers the likelihood to be remote, no earnout stock has been provided as of March 31, 1999. In connection with the acquisition of INET, the Company recorded goodwill of $2.6 million. (See Note 1 – Intangible Assets).

Crescent

In September 1998, the Company acquired a 19.9% equity position in Crescent Communications, Inc. ("Crescent"). Crescent is an early stage entity formed to provide primarily wholesale telecommunication services to select international markets. The Company acquired this minority interest for the sum of $1.3 million represented by a cash payment of $0.4 to Crescent and $0.9 in the form of a discount granted on switching equipment sold to Crescent (through a third-party lessor) in September 1998, this investment is accounted for using the cost method. As of March 31, 1999, Crescent was not yet running telecommunications traffic through its switching equipment and the Company recorded a $0.5 realization reserve on this investment.

Apollo

In February 1999, the Company entered into an agreement, subject to certain conditions, to acquire Apollo Telecom, Inc. ("Apollo"). Apollo subsequently was unable to meet the stipulated conditions and the Company withdrew its offer in April 1999. During the negotiations and in connection with the proposed acquisition, the Company advanced funds to Apollo in part secured by a Class II Telecommunications License to originate and terminate traffic in Tokyo, Japan. The total funding advanced to Apollo as at March 31, 1999 was $1.1 million. In April 1999, subsequent to the withdrawal of the Company's acquisition offer, Apollo filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. The Company subsequently obtained the Japanese license which has an estimated market value of $220,000. The Company recorded an expense charge of $0.9 million to fully provide for the loss in the fourth quarter of fiscal 1999.

Provisions were made for expenses of $2.2 million in fiscal 1998 for losses in connection with failed acquisitions, including funds advanced, costs of professional services, due diligence expenses, financial consulting fees and losses. The Company has an accrual for this amount, as Accrued Loss Reserve, in the accompanying Balance Sheet. In fiscal 1999, the Company had similar expenses of approximately $1.5 million which were offset by recoveries on prior year provisions. These provisions and recoveries are included in selling and administrative expenses in the accompanying financial statements.

NOTE 5 OTHER CURRENT ASSETS

At March 31, 1999, the Company had deposits with long distance carriers of $5.2 million. In the fourth quarter of fiscal 1999, the Company recorded a reserve of $2.0 million related to various deposits made with long distance carriers. The financial viability of some of the carriers has raised concern regarding the ultimate realization of the deposits. This provision is included in general and administrative expenses in the accompanying financial statements.

NOTE 7 COMMITMENTS AND CONTINGENCIES

The Company leases its facilities and various equipment under non-cancelable lease arrangements for varying periods. Leases that expire generally are expected to be renewed or replaced by other leases. Total rental expense under operating leases in fiscal 1999, 1998 and 1997 was $931,000, $310,000, $279,000, respectively.

Future minimum payments under non-cancelable operating leases with initial terms of one year or more for fiscal years subsequent to March 31, 1999 are as follows (in thousands):

2000	$1,169
2001	1,097
2002	1,110
2003	1,053
2004	441
	$4,870

Coyote Network Systems, Inc. (The Diana Corporation) Securities Litigation (Civ. No. 97-3186)
The Company was a defendant in a consolidated class action, In re The Diana Corporation Securities Litigation, that was pending in the United States District Court for the Central District of California. The Consolidated Complaint asserted claims against the Company and others under Section 10(b) of the Securities Exchange Act of 1934, alleging essentially that the Company was engaged, together with others, in a scheme to inflate the price of the Company's stock during the class period, December 6, 1994 through May 2, 1997, through false and misleading statements and manipulative transactions.

On or about February 25, 1999, the parties executed and submitted to the court a formal Stipulation of Settlement, dated as of October 6, 1998. Under the terms of the settlement, all claims asserted or that could have been asserted by the class are to be dismissed and released in return for a cash payment of $8.0 million (of which $7.25 million was paid by the Company's D&O insurance carrier on behalf of the individual defendants and $750,000 was paid by Concentric Network Corporation, an unrelated defendant) and the issuance of three-year warrants to acquire 2,225,000 shares of the Company's common stock at per share prices increasing from $9 in the first year, $10 in the second year and $11 in the third year. The cash portion of the settlement was previously paid into an escrow fund pending final court approval. The warrants were fully reserved by the Company in fiscal 1998.

On June 9, 1999, the Court rendered its Final Judgment and Order approving the settlement set forth in the Stipulation of Settlement. No objections to the approval of the settlement were filed.

The Company is also involved with other proceedings or threatened actions incident to the operation of its businesses. It is management's opinion that none of these matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

Nasdaq and Securities Exchange Commission

On December 9, 1998, TheStreet.com, an Internet publication, published articles questioning the Company's reported equipment sale through Comdisco, Inc. to Crescent Communications (see Notes 4 and 12). The articles implied that Crescent Communications, Inc. did not exist, leading to the conclusion that the sale was not valid. The article also discussed a Form S-3 Registration Statement, indicating that numerous insiders were "poised to sell huge chunks" of their holdings. Immediately following the publication of these articles, the trading volume in the Company's common stock reached approximately 2.2 million shares, a number significantly in excess of historical trading level, and the common stock price declined more than 50%. As a result of the articles and the significant trading in the Company's common stock, The Nasdaq National Market suspended trading in the Company's common stock on Thursday, December 10, 1998. After the Company

Options and Warrants

The Company has plans under which options to acquire up to 3,090,463 shares of the Company's common stock may be granted to directors, officers, key employees, consultants and non-employee directors of the Company and its subsidiaries. At March 31, 1999, options for 1,256,926 shares were available for grant under these plans. These plans are administered by the Company's Board of Directors, which is authorized, among other things, to determine which persons receive options under each plan, the number of shares for which an option may be granted, and the exercise price and expiration date for each option. The term of options granted shall not exceed 11 years from the date of grant of the option or from the date of any extension of the option term.

The following table summarizes the transactions for the option plans as well as for warrants issued for the last three fiscal years:

	Options	Option Price Per Share	Warrants	Warrant Price Per Share
Outstanding at March 30, 1996	971,158	$ 1.95 - 19.05	---	---
5% stock dividend	53,119	---	---	---
Granted	135,024	5.00 - 27.00	---	---
Cancelled	(320,941)	19.05	---	---
Outstanding at March 31, 1997	838,360	$ 1.95 – 27.00	---	---
Revalued – cancelled	(81,838)	19.05 - 27.00	---	---
Revalued – granted	81,838	3.00	---	---
Granted	284,250	3.00 - 7.72	2,329,198	$2.14 – 6.86
Exercised	(442,956)	1.95 - 5.55	---	---
Cancelled	(175,680)	5.53 - 27.00	---	---
Outstanding at March 31, 1998	503,974	$ 1.95 – 19.05	2,329,198	2.14 – 6.86
5% stock dividend	62,238	---	149,045	---
Granted	1,054,994	3.42 – 16.00	651,667	2.86 – 8.33
Exercised	(105,713)	2.86 – 9.00	---	---
Cancelled	(205,625)	2.86 – 19.05	---	---
Outstanding at March 31, 1999	1,309,868	$1.95 – 16.00	3,129,910	$2.14 – 6.86
Exercisable at March 31, 1999	305,997		3,129,910	

Option Price Per share	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Exercisable Options	Weighted Average Exercise Price
$1.86	25,526	$1.86	2.76	25,526	$1.86
2.86 – 3.93	637,268	3.49	5.07	206,091	3.06
3.99 – 6.01	268,790	5.00	4.27	60,551	4.63
6.13 – 7.38	291,182	6.66	4.43	13,829	6.18
7.56 – 16.00	87,102	8.71	4.60	---	---
	1,309,868	$4.82	4.69	305,997	$3.41

originally capitalized in other assets and amortized over the term of the debt as non-cash interest expense. Upon conversion, the unamortized portion was credited to additional paid in capital.

During fiscal 1997, the Company made a commitment to issue a warrant to an investment banker for services provided in connection with the Restructuring to purchase 100,000 shares of the Company's common stock at $22.63 per share (see Note 2). The warrant can be exercised at any time through February 2000. The Company recorded the fair value of the warrant within discontinued operations (see Note 2). The fair value of the warrant of $800,000 was estimated using the Black-Scholes option-pricing model.

In fiscal 1998, the Company issued two warrants to an investment banker for services provided in connection with the Restructuring to purchase a total of 324,000 shares of the Company's common stock at $2.25 per share. The Company recorded the fair value of the warrants of $503,000 as an expense in fiscal 1998. The fair value of the warrants of $503,000 was estimated using the Black-Scholes option-pricing model.

In March 1998, the Company issued a warrant to a leasing company for services provided in connection with customer financing to purchase 38,800 shares of the Company's common stock at $4.00 per share. The Company recorded a fair value of the warrants as an expense in the fourth quarter ended March 31, 1998 of $123,000 using the Black-Scholes option-pricing model.

In fiscal 1999, the Company issued two five-year term warrants to a leasing company for services provided in connection with customer financing to purchase 75,000 shares and 70,000 shares of the Company common stock at $8.75 per share and $8.50 per share, respectively. The Company recorded a fair value of the warrants of $485,000 as an expense in fiscal 1999. The fair value was estimated using the Black-Scholes option-pricing model.

Through June 19, 1999, none of the above warrants have been exercised.

At March 31, 1999, the Company had 3,940,285 shares of common stock reserved and available for warrants and for the conversion of Class A and B Units as described in Note 12 - Related Party Transactions.

As described in Note 7 above, an agreement has been reached to settle the claims against the Company and its subsidiaries in The Diana Securities Litigation. Under the terms of the agreement, the Company anticipates that it will issue warrants for 2,225,000 shares of the Company common stock with an expected life of three years from date of issuance. Such warrants will have an exercise price of $9.00 per share if exercised during the first year from date of issue and an exercise price of $10.00 per share or $11.00 per share if exercised during the second year or third year, respectively. The Company recorded the fair value of the warrants of $8,000,000 as an expense in fiscal 1998. The fair value was estimated using the Black-Scholes option-pricing model. These warrants are not included in the above table.

Convertible Preferred Stock and Warrants

In September 1998, the Company entered into a private placement agreement and issued 700 shares of 5% Series A Convertible Preferred Stock, par value $.01, with a liquidation value of $10,000 per share. The total cash received by the Company was $6,345,000 after payment of $655,000 for fees and expenses associated with the issue. The preferred stock has no voting rights and is convertible, subject to certain limitations and restrictions, into shares of common stock, after a minimum holding period of 120 days, based upon a per share common stock price that will be the lesser of the initial conversion price as defined in the contract or 87% of the average of the three lowest per share market values during the ten trading day period prior to an applicable conversion date. The holders of Preferred Stock are entitled to receive 5% cumulative dividends per annum. No dividends can be paid or declared on any Common Stock unless full cash dividends, including past dividends declared, have been paid on the Preferred Stock. During fiscal 1999, the Company declared and paid cash dividends of $205,000 on the Preferred Stock.

22, 1997. Interest is payable semi-annually in arrears in the form of Company common stock based on the above-described conversion price.

As of June 9, 1998, the full value of notes and accrued interest to the date of conversion had been converted into Company common stock. Common stock totaling 1,404,825 shares was issued in connection with conversions of $5,133,000 of convertible notes and accrued interest.

In October 1998, the Board of Directors approved the declaration of a 5% common stock dividend. Based upon an established record date of October 21, 1998, the Company issued 497,623 shares of common stock on November 4, 1998. Certain contractual anti-dilution provisions reduced conversion and warrant exercise prices by a minor amount.

NOTE 9 INCOME TAXES

A reconciliation of the income tax credit and the amount computed by applying the statutory federal income tax rate (34%) to loss from continuing operations before extraordinary items, minority interest and income tax credit for the last three fiscal years is as follows (in thousands):

	1999	1998	1997
Credit at statutory rate	$ (3,097)	$(11,613)	$ (4,604)
Settlements of liabilities of unconsolidated subsidiary	(1)	(10)	(5)
Tax effect of net operating loss not benefited	3,076	11,600	4,500
Refund of federal income taxes paid in a prior year	---	---	(836)
Other, net	22	23	109
Income tax credit	$ ---	$ ---	$ (836)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. The components of the Company's deferred tax assets and liabilities of continuing operations are as follows (in thousands):

	March 31, 1999	March 31, 1998
Federal net operating loss carryforwards	$ 16,818	$ 17,814
State net operating loss carryforwards	729	1,367
Reserve for loss on discontinued operations	819	745
Federal capital loss carryforward	4,758	646
Excess and obsolete inventory reserve	337	560
Capitalized interest in CNS debentures	168	225
General business credit	490	145
All others	314	261
Total deferred tax assets	24,433	21,763
Valuation allowance for deferred tax assets	(21,879)	(19,396)
Net deferred tax assets	2,554	2,367
Intangible assets (net)	1,407	1,407
All others	1,147	960
Total deferred tax liabilities	2,554	2,367
Net deferred taxes	$ ---	$ ---

The Company has approximately $50,000,000 in both federal and state net operating loss carryforwards. These carryforwards expire at various dates through fiscal 2014. The Tax Reform Act of 1986 imposed substantial restrictions on the utilization of net operating losses in the event of an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986. Subsequent to March 31, 1999, due to the Company's continuing

NOTE 11 EXTRAORDINARY ITEMS

On October 4, 1996, APC refinanced its revolving line of credit with a new lender. In connection with the refinancing, APC incurred expenses of $227,000, which are reflected in the fiscal 1997 Consolidated Statement of Operations as an extraordinary item.

In February 1997, APC sold a majority of its assets and used part of the proceeds to repay its revolving line of credit (see Note 2). APC incurred expenses of $281,000 in connection with the early repayment which are reflected in the fiscal 1997 Consolidated Statement of Operations as an extraordinary item.

NOTE 12 RELATED PARTY TRANSACTIONS

On November 11, 1996, the Company loaned $300,000 each to James J. Fiedler and Daniel W. Latham. Mr. Fiedler is the Company's Chairman and Chief Executive Officer and Mr. Latham is the Company's President and Chief Operating Officer. Messrs. Fiedler and Latham both executed unsecured Promissory Notes due November 1, 1999 which provide interest at 6.07% per annum compounded on the anniversary date and payable on November 1, 1999. In addition, each person agreed to surrender previously awarded options they each held to purchase 150,000 shares of the Company's common stock.

The Promissory Notes provide for full repayment prior to November 1, 1999 in the event of the following: (a) upon any transfer of Messrs. Fiedler's or Latham's Class B Units in CTL (other than to a Permitted Transferee, as defined in the Agreement Regarding Award of Class B Units (the "Award Agreement")), or by any such Permitted Transferee (including without limitation certain transfers contemplated by the Award Agreement) or (b) upon any exchange or conversion of Class B Units for or into securities registered under the Securities Exchange Act of 1934, as amended, in accordance with the Award Agreement. In connection with the employment agreements with Messrs. Fiedler and Latham entered into on September 4, 1997, the Company's Board of Directors agreed to forgive the notes. Under the employment agreements, equal one third portions of the notes were forgiven at September 4, 1997 and, if their respective employments are renewed, will be forgiven at each of the next two anniversaries of the date of the employment agreements, provided that each individual remains as an employee of the Company at each such forgiveness date.

Messrs. Fiedler and Latham used the proceeds of the loan to each purchase 100 non-forfeitable Class B Units of CTL from Mark Jacques, a former officer of CTL, for an aggregate purchase price of $600,000. On November 12, 1996, CTL entered into a settlement agreement with Mr. Jacques whereby Mr. Jacques (i) agreed to the assignment to the Company of the employment agreement between him and CTL and (ii) retained his remaining 250 Class B Units of CTL. Mr. Jacques was terminated as an employee of the Company in January 1997. The Company has accounted for the loans to Messrs. Fiedler and Latham and their purchase of Class B Units from Mr. Jacques as a settlement with Mr. Jacques and recorded an expense of $600,000 during the third quarter of fiscal 1997.

The Company entered into Separation Agreements, dated November 20, 1996 (the "Separation Agreements"), with each of Richard Y. Fisher, Sydney B. Lilly and Donald E. Runge (the "Departing Officers") that provide for termination of employment and resignation from all offices and directorships in the Company and its subsidiaries by the Departing Officers, except for Mr. Lilly's directorship of the Company. The Separation Agreements provide for payment by the Company, as of November 29, 1996, of $186,000 and $749,000, respectively, to Mr. Runge and Mr. Fisher, in settlement of deferred compensation previously earned and payments of $343,000 to Mr. Fisher and $83,000 to each of Mr. Runge and Mr. Lilly as severance settlements resulting in total payments to the Departing Officers of $1,444,000. In accordance with provisions of the Amended and Restated Employment Agreements entered into by the Company and each of the Departing Officers on April 2, 1995, each Departing Officer shall be entitled to have all medical, dental, hospital, optometrical, nursing, nursing home and drug expenses for themselves and their spouses paid by the Company for life, or in the case of Mr. Lilly, until March 31, 2000. The Separation Agreement for Mr. Fisher provides that he shall repay in full a promissory note dated April 11, 1988, in the amount

Comdisco, Inc., a technology services and finance company, is the beneficial owner of approximately 6% of the Company's common stock including 515,400 shares purchased by Comdisco on the open market and 192,990 warrants issued in connection with lease financing provided by Comdisco to the Company's end-user customers. During fiscal 1998 and fiscal 1999, Comdisco has provided financing in a total amount of $24.0 million to four of the Company's customers.

In fiscal 1999, the Company sold 71,650 shares of common stock for $300,000 to Systeam. (See Note 4).

PrinVest Corporation, a financing and leasing corporation, has a minority interest of approximately 4% of the Company's subsidiary Coyote Gateway, LLC (dba AGT). During fiscal 1999, PrinVest has provided financing to AGT ($8.2 million at March 31, 1999) in connection with deposits required to be made by AGT to other long distance telecommunications carriers and for working capital. The Company has pledged 708,692 shares of common stock as collateral on the notes payable to PrinVest. PrinVest has also provided lease financing of the Company's equipment to the Company's end-user customers. In 1999, PrinVest provided lease financing in the total amount of $15.0 million to four of the Company's customers.

In November 1997, the Company completed the sale of C&L Communications, Inc. ("C&L") to the management of C&L (See Note 2). During the years ended March 31, 1998 and 1999, the Company had the following transactions with C&L.

	1999	1998
Purchases from C&L	$9,498,000	$0
Sales to C&L	$0	$304,000
Redemption of Preferred Stock by C&L	$1,500,000	$0

The purchases from C&L consist primarily of compression equipment manufactured by Newbridge Networks. C&L is a Newbridge dealer and the Company is not.

NOTE 14 STATEMENTS OF CASH FLOWS

Supplemental cash flow information relating to continuing operations for the last three fiscal years is as follows (in thousands):

	1999	1998	1997
Change in current assets and liabilities:			
Trade receivables	$(10,486)	$ 3,879	$ (4,540)
Inventories	(8)	815	(1,850)
Other current assets	6,071	(735)	294
Accounts payable	2,472	(640)	2,076
Other current liabilities	8,158	5,170	856
	$ 6,207	$ 8,489	$ (3,164)
Non-cash transactions:			
Expense charge on conversion of A & B units	$ ---	$ 5,522	$ ---
Convertible debt expense associated with conversion to common stock below market price	(382)	1,875	---
Acquisitions purchased with common stock	1,686	---	1,818
Conversion of promissory note and accrued interest into CNC preferred stock	---	---	5,072
Conversion of debt to common stock	3,789	---	---
Securities litigation warrant expense	---	8,000	---
Dividend paid in common stock	3,359	---	7,725
Sales discount granted for investment in affiliate	(900)	---	---
Amounts paid directly by lender	(7,921)	---	---

NOTE 15 LIQUIDITY AND CAPITAL RESOURCES

Fiscal 1999 – Year Ended March 31, 1999

After the restructuring, the Company's operations are similar to those of an early-stage enterprise and are subject to all the risks associated therewith. These risks include, among others, uncertainty of markets, ability to develop, produce and sell profitably its products and services and the ability to finance operations. Management believes that it has made significant progress on its business plan in fiscal 1999 and to date in fiscal 2000. Significant actions in this progress include increasing sales in fiscal 1999, commencing operations of AGT and INET, resolving the class action lawsuit (See Note 7) and recently raising additional equity investment (see Notes 8 and 16). However, the Company remains constrained in its ability to access outside sources of capital until such time as the Company is able to demonstrate higher levels of sales and more favorable operating results. Management believes that it will be able to continue to make progress on its business plan and mitigate the risks associated with its business, industry and current lack of working capital.

In fiscal 1999, the Company raised $6.3 million, net of fees, from the issuance of 700 shares of 5% Series A Convertible Preferred Stock (see Note 8). These funds, together with operating cash on hand at the end of the prior fiscal year and increases in short-term borrowings, were sufficient to finance the Company's growth in operating activities experienced during fiscal 1999. However, the increases in short-term debt and other current liabilities required to support the operations resulted in a deficiency in current working capital as at March 31, 1999 of $0.7 million.

need to be funded either with funds generated through operations or with additional debt or equity financing. If the Company's operations do not provide funds sufficient to fund its operations and the Company seeks outside financing, there can be no assurance that the Company will be able to obtain such financing when needed, on acceptable terms or at all.

The Company is seeking buyers for C&L and Valley. It is anticipated that the proceeds of the sales of these businesses and assets will be used to fund a portion of the Company's capital and operating requirements in fiscal 1998. Restrictions in the revolving lines of credit of C&L and Valley prevent the Company from presently accessing funds from these subsidiaries. Such restrictions in C&L's revolving line of credit may also initially limit the Company's access to the total proceeds from a sale of Valley prior to any ultimate sale of C&L given the existing ownership structure of Valley.

NOTE 16 SUBSEQUENT EVENTS

On May 27, 1999, the Company sold, pursuant to Rule 506 under Regulation D, 1,767,000 shares of common stock at $6.00 per share in a private placement with new and existing domestic and international institutional investors. The placement agent received cash commissions of $352,000 and commissions in the form of common stock aggregating 131,148 shares and five-year warrants to purchase 176,700 shares at $6.00 per share. The net proceeds of approximately $10.2 million are to be used for working capital and to redeem $4 million of the outstanding Convertible Preferred Stock. In connection with this redemption, the conversion price of the remaining $6 million of Convertible Preferred Stock was fixed at $6.00 per share and the Company issued the holder of the Convertible Preferred Stock 18-month warrants to purchase 325,000 shares of common stock at $6.00 per share. These warrants may be exercised at any time until December 30, 2000.

The Company has agreed to use its best efforts to file a registration statement as to the common stock issued in the private placement and underlying the warrants and Convertible Preferred Stock referred to above.

In July 1999, the Company received an offer for a commitment for a stand-by credit facility from certain shareholders that would provide a funding commitment to the Company of $3.5 million. This facility would be secured by the stock of INET, bear 12.5% interest on the outstanding principal balance and be repayable on March 31, 2000.

In July 1999, the Company entered into an agreement to sell its shares of iCompression, Inc. (See Note 4) for $1.9 million.

(1.1) Errors, including instances of failure to properly consider, with respect to our policy, the effect of non-standard contract provisions on revenue recognition.

(1.2) Need for a more structured approach by which to thoroughly complete and document a review of relevant terms and conditions for all contracts consistent with our revenue recognition policy/procedure and required revenue recognition criteria.

Upon further review by us it was determined that certain sales transactions at our Sattel Communications ("Sattel") operation were not consistent with the Sattel policy and procedure and the criteria required to support revenue recognition in accordance with generally accepted accounting principles. These errors resulted in revisions to previously reported unaudited financial information with respect to the second and third quarters of fiscal 1997. These revisions, which were included and reported in Note 16 Quarterly Results of Operations (Unaudited) of Form 10-K filed in respect of the fiscal year 1997, were as follows:

	FISCAL YEAR ENDED MARCH 31, 1997 (In Thousands, Except Per Share Amounts			
	12 Weeks Ended			
	October 12, 1996		January 4, 1997	
	Originally Reported	Revised	Originally Reported	Revised
Net Sales	$ 4,046	$ 3,666	$ 4,337	$ 2,552
Gross profit (loss)	3,034	2,775	3,057	1,842
Net loss	$ (4,598)	$ (4,737)	$ (4,001)	$ (5,936)
Net loss per common share	$ (.87)	$ (.90)	$ (.76)	$ (1.12)

The per share amounts presented above do not reflect our November 4, 1998 stock dividend.

(2) In addition to the matter reported in (v)(1) above, it was also noted that internal control weaknesses existed, which did not result in revisions to previously reported financial information, relative to insufficient identification and control surrounding Sattel's maintenance of detailed historical cost and accumulated depreciation information by individual asset, and that the timeliness and quality of account reconciliations and supporting analysis requires improvement in order to ensure that procedures are in place to support expected increases in transaction volumes anticipated by us.

The following actions are being taken by our management to correct the identified weaknesses:

- Strengthening of our financial organization to increase the number of personnel qualified to address revenue recognition issues and to improve the timeliness and quality of account reconciliations and analysis.

- Implementation of a more timely and diligent review and resolution by management of all non-standard contract terms and conditions.

- Development and implementation of a comprehensive system to identify and properly address relevant revenue recognition considerations.

- Implementation of an enhanced fixed assets accounting and control system.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Identification of Directors

The Board of Directors is divided into three classes of directors consisting of three classes of two members each or six members in the aggregate. The election of directors is staggered so that the term of only one class of directors expires each year. Generally, the term of each class is three years. Currently, the Board of Directors has one vacant position. The Board of Directors consists of the following members:

Directors with Terms Expiring in 1999

Jack E. Donnelly, age 64, has been a director of the Company since November 1991. Since 1986, he has been a principal of Bailey & Donnelly Associates, Inc., an investment company.

Daniel W. Latham, age 51, has been a director of the Company since November 1996. He has been President and Chief Operating Officer of the Company since November 1996 and President of Coyote Technologies, LLC ("CTL") since September 1995. Prior to his association with CTL, Mr. Latham was the President of Frontier Communications Long Distance Company.

Directors with Terms Expiring in 2000

James J. Fiedler, age 53, has been a director of the Company since August 1996. He has been Chairman and Chief Executive Officer of the Company since November 1996 and Chairman and Chief Executive Officer of CTL since September 1995. Previously, Mr. Fiedler was a principal in the consulting firm of Johnson & Fiedler. From November 1992 to September 1994, Mr. Fiedler was Vice President of Sales and Marketing and subsequently President and Director of Summa Four, Inc., a telecom switching company. From June 1989 to July 1992, Mr. Fiedler was Executive Vice President and Chief Operating Officer of Timeplex, a subsidiary of Unisys Corporation, engaged in the business of manufacturing data and telecommunications equipment. Prior to June 1989, Mr. Fiedler held executive positions with Unisys Corporation and Sperry Corporation (subsequently acquired by Unisys Corporation). He has been a director of Entrée Corporation since November 1996.

Stephen W. Portner, age 47, has been a director of the Company since August 1997. He has been the Managing Director of European Projects for JMJ Associates, a global management consulting company, and has served in various capacities at JMJ Associates from January 1994 to the present. From December 1991 to January 1994, Mr. Portner held positions in plant and project management and was Director of Quality at Air Products Incorporated, an industrial chemicals company.

Director with Term Expiring in 2001

J. Thomas Markley, age 66, has served as an advisor to the Company's Board of Directors and was appointed as director in September 1999. Mr. Markley is President of JTM, Inc., a consulting firm specializing in senior management consulting for telecommunications, data communications and electric utilities. Previously, Mr. Markley was President of Raytheon Worldwide, a leading diversified technology company, as well as Corporate Vice President and President of Raytheon Data Systems. Prior to Raytheon, Mr. Markley was Deputy Program Manager of NASA's Apollo Program. Mr. Markley has served on the President's Science Advisory Council, as a member of the Space Defense Initiative Committee and as an examiner for the Malcolm Baldridge National Quality Award. Mr. Markley also was Senior Vice President Telecommunication Operation and Planning for Salient, Communications, Inc., a telecom equipment company.

ITEM 11. EXECUTIVE COMPENSATION

All shares and per share numbers included herein have been retroactively adjusted to give effect to a 5% stock dividend which was paid on November 4, 1998 to holders of record as of October 21, 1998.

The following table sets forth, for the three fiscal years ended March 31, 1999, the total annual compensation paid to, or accrued by the Company for the account of, James J. Fiedler, Daniel W. Latham and Brian A. Robson (the "Named Executives") serving as such at March 31, 1999 and one former executive officer:

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation			
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation(5)	Restricted Stock Award(s)	Securities Underlying Options	Long-term Incentive Plan Layouts	All Other Compensation
James J. Fiedler (1)	1999	$ 300,000	$ 9,335	$20,000	---	94,500 (6)	---	$ 7,200 (8)
Chairman, CEO	1998	$ 200,000	$ 19,746	$15,000	---	---	---	$ 7,200 (8)
and Director	1997	$ 200,000	---	$ 3,720	---	---	---	---
Daniel W. Latham (2)	1999	$ 300,000	$ 9,335	$20,000	---	94,500 (6)	---	$ 7,200 (8)
President, COO	1998	$ 175,000	$ 19,746	$15,000	---	---	---	$ 7,200 (8)
and Director	1997	$ 175,000	---	$ 3,750	---	---	---	$170,197 (9)
Brian A. Robson (3)	1999	$ 152,487	$ 12,875	---	---	98,125 (7)	---	---
Executive Vice President	1998	$ 139,907	---	---	---	2,100	---	$ 21,921 (10)
CFO and Secretary	1997	$ 56,250	---	---	---	11,250	---	$ 13,041 (10)
Edward Beeman (4)	1999	$ 79,526	---	---	---	---	---	$ 53,548 (11)

(1) On November 29, 1996, Mr. Fiedler was appointed Chairman and Chief Executive Officer of the Company. Mr. Fiedler also remained as Chairman and Chief Executive Officer of CTL (see Employment Agreements).

(2) On November 29, 1996, Mr. Latham was appointed President and Chief Operating Officer of the Company. Mr. Latham also remained as President of CTL (see Employment Agreements).

(3) On October 31, 1996, Mr. Robson was appointed Vice President and Controller of the Company. On December 15, 1998, Mr. Robson was appointed Executive Vice President, Chief Financial Officer and Secretary of the Company.

Aggregated Option Exercises During the Fiscal Year Ended March 31, 1999 and Fiscal Year End Option Values

The table below provides information regarding the value of the in-the-money stock options held by the Named Executives at March 31, 1999. The Named Executives did not exercise any stock options during the fiscal year.

	Number of Unexercised Options at March 31, 1999		Value of Unexercised In-the-Money Options at March 31, 1999(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
James J. Fiedler	---	94,500	---	$ 195,615
Daniel W. Latham	---	94,500	---	$ 195,615
Brian A. Robson	4,375	106,875	$13,212	$ 52,412

(1) Value based on the closing price of $5.88 of the common stock on The Nasdaq National Market on March 31, 1999, less the option exercise price. Does not include, as to Messrs. Fiedler and Latham, an aggregate of 376,000 options each, which they are entitled to be granted over the next four years pursuant to their respective employment agreements. If such options were added, the value of unexercisable in-the-money options would not increase, as the exercise prices of such grants will range from $7.62 to $19.05.

Stock Option Plans

On December 11, 1986, the Board of Directors adopted the Company's 1986 Non-Qualified Stock Option Plan (the "1986 Plan"). The 1986 Plan, as amended, provides for the grant of options to purchase up to 832,963 shares of Common Stock to executive officers, key officers, employees, directors and consultants of the Company and its subsidiaries. In February 1998, the Board of Directors adopted the Company's Non-Employee Director Stock Option Plan (the "Director Plan"). The Director Plan provides for the grant of options to purchase up to 157,500 shares of Common Stock to non-employee directors of the Company. In March 1996, the Board of Directors adopted the Employees Non-Qualified Stock Option Plan of CTL (the "CTL Plan"). The CTL Plan provides for the grant of options to purchase up to 2,100,000 shares of Common Stock to executive officers, key employees, directors, consultants and advisors of the Company, its affiliates and subsidiaries.

As of March 31, 1999, options to purchase 592,463, 63,000 and 1,178,074 shares of Common Stock have been granted under the 1986 Plan, the Director Plan and the CTL Plan, respectively. As of March 31, 1999, 442,956, 0 and 105,713 shares of Common Stock have been issued pursuant to the exercise of options under the 1986 Plan, the Director Plan and the CTL Plan, respectively. Any unexercised options that expire or terminate upon a director's resignation or an employee's ceasing to be employed by the Company, its affiliates or subsidiaries become available again for issuance under the 1986 Plan, the Director Plan or the CTL Plan, as the case may be.

In April 1998, stock options to purchase 10,500 shares of the Company's common stock were granted to each of the non-employee members of the Board of Directors pursuant to the Director Plan. These options have an exercise price of $3.42 per share.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of August 31, 1999 regarding the beneficial ownership of the Company's Common Stock by (a) each person known by the Company to own beneficially more than 5% of the Company's Common Stock, (b) each director and officer of the Company, including Messrs. Fiedler, Latham and Robson, and (c) all directors and executive officers of the Company as a group. Except as otherwise indicated and subject to community property laws where applicable, the persons named in the table below have sole voting and dispositive power with respect to the shares of Common Stock shown as beneficially owned by them. Information as to Alan J. Andreini and Kiskiminetas Springs School was derived from the Schedules 13D and 13G filed by each such stockholder. Information as to Richard L. Haydon was derived from the Schedule 13D filed by Mr. Haydon on July 28, 1997, as well as information provided to the Company by Mr. Haydon. Information as to JNC Opportunity Fund was derived from information provided to the Company by JNC. Except for the percentage of ownership, the information set forth below reflects the information contained in the Schedule 13G and/or 13D as of the date such Schedule 13G or 13D was filed.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Outstanding Shares
Jack E. Donnelly [1]	42,245 [2]	*
James J. Fiedler [1]	642,288 [3]	5.0%
Daniel W. Latham [1]	232,312 [4]	1.8 %
J. Thomas Markley [1]	21,000 [5]	*
Stephen W. Portner [1]	47,250 [6]	*
Brian A. Robson [1]	13,125 [7]	*
Alan J. Andreini [8]	1,134,335 [9]	9.0%
JNC Opportunity Fund [10]	663,142 [11]	4.999%
Richard L. Haydon [12]	1,528,400 [13]	11.5%
Kiskiminetas Springs School [14]	1,010,210 [15]	8.0%
All directors and executive officers of the Company as a group (5 persons)	998,220 [2][3][4][5][6][16]	7.5%

* Less than 1%

(1) The address of the stockholder is: c/o Coyote Network Systems, Inc., 4360 Park Terrace Drive, Westlake Village, CA 91361.

(2) Includes 33,763 shares of Common Stock issuable upon exercise of stock options which are currently exercisable.

(3) Includes 94,500 shares of Common Stock issuable upon exercise of stock options and 183,750 shares of Common Stock issuable upon exercise of warrants which are currently exercisable. Includes 192,938 shares of Common Stock received by the stockholder upon conversion of Class B Units of Coyote Technologies, LLC ("CTL") on June 24, 1999. Does not include 94,500 shares of Common Stock issuable upon exercise of stock options not currently exercisable.

(4) Includes 94,500 shares of Common Stock issuable upon exercise of stock options which are currently exercisable. Includes 21,000 shares of Common Stock received by the stockholder upon conversion of Class B Units of CTL on July 7, 1999. Includes 95,812 shares of Common Stock issuable upon conversion of

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In January 1998, the Board of Directors of the Company approved an interest-free loan to Daniel W. Latham for a maximum amount of $500,000 to be used solely for the purpose of providing partial down payments on his purchase of a residence in California. The funding is to be secured by the residential property and is for a five-year term unless specifically extended by the Board of Directors. Earlier repayment of the loan will be demanded in the event of either (1) sale or refinancing of the property; (2) termination of Mr. Latham's employment by the Company either voluntarily or for cause; or (3) sale by Mr. Latham of all, or substantially all, of his stock in the Company. As of March 31, 1999, $421,000 was funded to Mr. Latham under this agreement. In October 1998, the Company amended the terms of the loan, and in agreement with Mr. Latham established an annual interest rate of 6.5% to be applied to the loan and which is payable at the completion of the term.

Comdisco, Inc., a technology services and finance company, was the beneficial owner of approximately 6% of our common stock including 515,400 shares purchased by Comdisco on the open market and 192,990 warrants issued in connection with lease financing provided by Comdisco to our end-user customers. During fiscal 1998 and fiscal 1999, Comdisco has provided lease financing in a total amount of $24.0 million to four of the Company's customers. In August 1999, Comdisco filed a Schedule 13G disclosing that its beneficial ownership as of August 23, 1999 consisted solely of the 192,990 warrants and that Comdisco had ceased to be a beneficial owner of more than 5% of our common stock.

(c) Exhibits

Exhibit Number	Description
2.1	Stock Acquisition by Merger Agreement, dated as of September 30, 1998, among Coyote Network Systems, Inc., INET Acquisition, Inc., INET Interactive Network System, Inc., Claude Buchert, Helene Legendre and First Rock Trustees, Limited, a Gibraltar corporation, trustee of the Guimauve Trust, a Gibraltar trust dated September 1, 1994 (incorporated herein by reference to Exhibit 2.1 of Registrant's Form 8-K filed on October 15, 1998).
3.1	Restated Certificate of Incorporation, as amended September 1, 1992 (incorporated herein by reference to Exhibit 4.1 of Registrant's Registration Statement on Form S-8 Reg. No. 333-63017).
3.2	By-Laws of Registrant, as amended March 7, 1997.
4.1	Loan and Security Agreement between C&L Communications, Inc. and Sanwa Business Credit dated January 2, 1996 (incorporated herein by reference to Exhibit 10.1 of Registrant's Registration Statement on Form S-3 Reg. No. 333-1055).
4.2	First Amendment to Loan and Security Agreement and Waiver Agreement between C&L Communications, Inc. and Sanwa Business Credit Corporation dated June 27, 1996 (incorporated herein by reference to Exhibit 4.2 of Registrant's Form 10-K/A for the year ended March 30, 1996).
4.3	Loan and Security Agreement by and between Valley Communications, Inc. and Sanwa Business Credit Corporation dated March 14, 1996 (incorporated herein by reference to Exhibit 4.1 of Registrant's Form 10-Q for the period ended July 20, 1996).
4.4	Certain other long-term debt as described in Note 6 of Notes to Consolidated Financial Statements which do not exceed 10% of the Registrant's total assets on a consolidated basis. The Registrant agrees to furnish to the Commission, upon request, copies of any instruments defining the rights of holders of any such long-term debt.
4.5	Second Amendment to Loan and Security Agreement and Waiver Agreement between C&L Communications, Inc. and Sanwa Business Credit Corporation dated July 10, 1997.
4.6	First Amendment to Loan and Security Agreement by and between Valley Communications, Inc. and Sanwa Business Credit Corporation dated May 29, 1997.
4.7	Form of Subscription Agreement (incorporated herein by reference to Exhibit 4.1 of Registrant's Form 8-K filed on July 31, 1997).
4.8	Form of Note (incorporated herein by reference to Exhibit 4.2 of Registrant's Form 8-K filed on July 31, 1997).
4.9	Form of Registration Rights Agreement (incorporated herein by reference to Exhibit 4.3 of Registrant's Form 8-K filed on July 31, 1997).
4.10	Form of Offshore Warrant Subscription Agreement (incorporated herein by reference to Exhibit 4.4 of Registrant's Form 8-K filed on July 31, 1997).

10.8 1996 Sattel Communications LLC Employees Nonqualified Stock Option Plan (incorporated herein by reference to Exhibit 10.13 of Registrant's Form 10-K for the year ended March 30, 1996).

10.9 Memorandum of Understanding between Coyote Network Systems, Inc., Sattel Communications Corp. and Sattel Technologies, Inc. dated May 3, 1996 (incorporated herein by reference to Exhibit 10.15 of Registrant's Form 10-K for the year ended March 30, 1996).

10.10 Second Supplemental Agreement Relating to Joint Venture and Exchange Agreement Reformation between Coyote Network Systems, Inc., Sattel Technologies, Inc. and D.O.N. Communications Corp. dated May 3, 1996 (incorporated herein by reference to Exhibit 10.16 of Registrant's Form 10-K for the year ended March 30, 1996).

10.11 Third Supplemental Agreement Relating to Joint Venture between The Diana Corporation and Sattel Technologies, Inc. dated October 14, 1996 (incorporated herein by reference to Exhibit 10.3 of Registrant's Amendment No. 2 to Form S-3 filed October 21, 1996).

10.12 Operating Agreement of Sattel Communications, LLC (incorporated herein by reference to Exhibit 10.17 of Registrant's Form 10-K/A for the year ended March 30, 1996).

10.13 Amendment to the Operating Agreement of Sattel Communications LLC (incorporated herein by reference to Exhibit 10.18 of Registrant's Form 10-K/A for the year ended March 30, 1996).

10.14 Second Amendment to the Operating Agreement of Sattel Communications LLC (incorporated herein by reference to Exhibit 10.19 of Registrant's Form 10-K/A for the year ended March 30, 1996).

10.15 Asset Purchase Agreement dated January 31, 1997 by and among Atlanta Provision Company, Inc. and Colorado Boxed Beef Company (incorporated herein by reference to Exhibit 10.1 of Registrant's Form 8-K filed March 3, 1997).

10.16 Agreement Regarding Class A Units dated October 2, 1996 by and between Sydney B. Lilly and Sattel Communications LLC (incorporated herein by reference to Exhibit 10.2 of Registrant's Form 8-K filed March 3, 1997).

10.17 Amended and Restated Agreement Regarding Award of Class B Units dated November 11, 1996 by and between James J. Fiedler and CTL Communications LLC (incorporated herein by reference to Exhibit 10.3 of Registrant's Form 8-K filed March 3, 1997).

10.18 Amended and Restated Agreement Regarding Award of Class B Units dated November 11, 1996 by and between Daniel W. Latham and Sattel Communications LLC (incorporated herein by reference to Exhibit 10.4 of Registrant's Form 8-K filed March 3, 1997).

10.19 Amendment to Stock Option Agreements dated November 20, 1996 by and between Coyote Network Systems, Inc. and Richard Y. Fisher (incorporated herein by reference to Exhibit 10.5 of Registrant's Form 8-K filed March 3, 1997).

10.20 Separation Agreement dated November 20, 1996 by and between The Diana Corporation and Richard Y. Fisher (incorporated herein by reference to Exhibit 10.6 of Registrant's Form 8-K filed March 3, 1997).

10.33 Stockholder Protection Rights Agreement dated as of September 10, 1996 between Coyote Network Systems, Inc. and ChaseMellon Shareholder Services, L.L.C. as Rights Agent (incorporated herein by reference to Exhibit 1 of Registrant's Form 8-A filed September 11, 1996).

10.34 1998 Non-Employee Director Stock Option Plan dated February 19, 1998 (incorporated herein by reference to Exhibit 10.34 of Registrant's Form 10-K filed July 14, 1998).

10.35 Merger Agreement dated November 19, 1997, by and among Coyote Network Systems, Inc.; Soncainol, Inc.; and Michael N. Sonaco, James G. Olson and William H. Cain (incorporated herein by reference to Exhibit 10.1 of Registrant's Form 8-K filed December 5, 1997).

10.36 Stock Purchase Agreement dated March 31, 1998, between C&L Acquisitions, Inc. and Technology Services Corporation (incorporated herein by reference to Exhibit 99.1 of Registrant's Form 8-K filed June 19, 1998).

10.37 Employment Agreement effectively dated April 1, 1998, by and between Coyote Network Systems, Inc. and James J. Fiedler (incorporated herein by reference to Exhibit 10.1 of Registrant's Form 10-Q filed August 14, 1998).

10.38 Employment Agreement effectively dated April 1, 1998, by and between Coyote Network Systems, Inc. and Daniel W. Latham (incorporated herein by reference to Exhibit 10.2 of Registrant's Form 10-Q filed August 14, 1998).

10.39 Non-Compete Agreement between C&L Acquisitions, Inc. and Technology Services Corporation, dated March 31, 1998 (incorporated herein by reference to Exhibit 99.2 of Registrant's Form 8-K filed June 19, 1998).

10.40 Convertible Preferred Stock Purchase Agreement between the Company and JNC Opportunity Fund, dated August 31, 1998 (incorporated herein by reference to Exhibit 10.3 of Registrant's Form 10-Q filed November 16, 1998).

10.41 Amendment to Separation Agreement between the Company and Sydney B. Lilly effective September 30, 1998.

16.1 Letter dated November 5, 1997 from Price Waterhouse LLP, (incorporated herein by reference to Form 8-K/A (Amendment No. 2) filed on November 5, 1997). The disclosures included in Item 9(a) of this Annual Report on Form 10-K/A (Amendment No. 2) were derived from Item 4(a) of the Company's October 15, 1997 Form 8-K/A (Amendment No. 2) as referenced in the letter dated November 5, 1997 from Price Waterhouse LLP.

21 Subsidiaries of Registrant

23 Consent of Independent Accountants

27 Financial Data Schedule

COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES
Schedule I - Condensed Financial Information of Registrant (Continued)
Statements of Cash Flows
(In Thousands)

	Fiscal Year Ended March 31, 1997
Operating activities:	
Loss before extraordinary items	$ (20,510)
Adjustments to reconcile loss to net cash used by operating activities:	
Equity in loss of unconsolidated subsidiaries	17,558
Other	(595)
Changes in current assets and liabilities	1,231
Net cash used by operating activities	(2,316)
Investing activities:	
Proceeds from sales of marketable securities	1,353
Changes in investments in and advances to unconsolidated subsidiaries	(15,945)
Other	100
Net cash used by investing activities	(14,492)
Financing activities:	
Repayments of long-term debt	(141)
Common stock funding	13,918
Extraordinary items	(508)
Net cash provided by financing activities	13,269
Decrease in cash	(3,539)
Cash at the beginning of the year	3,567
Cash at the end of the year	$ 28
Non-cash transactions:	
Purchase of minority interest with common stock	1,818

See notes to condensed financial information and notes to consolidated financial statements.

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 this 20th day of September, 1999.

COYOTE NETWORK SYSTEMS, INC.

By /s/ James J. Fiedler
James J. Fiedler, Chairman of
the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of and the in the capacities and on the dates indicated.

Signature	Title	Date
/s/ James J. Fiedler James J. Fiedler	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	September 20, 1999
/s/ Daniel W. Latham Daniel W. Latham	President, Chief Operating Officer and Director	September 20, 1999
/s/ Brian A. Robson Brian A. Robson	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	September 20, 1999
/s/ Jack E. Donnelly Jack E. Donnelly	Director	September 20, 1999
/s/ J. Thomas Markley J. Thomas Markley	Director	September 20, 1999
/s/ Stephen W. Portner Stephen W. Portner	Director	September 20, 1999

ATTACHMENT IV

MANAGERIAL AND TECHNICAL CAPABILITIES

Coyote Metro, LLC
Management Profiles

Claude Buchert - President and Chief Executive Officer

Mr. Buchert is President and CEO of Coyote Metro. His duties include full P&L responsibilities for Coyote Metro and INET Interactive Network Systems, Inc. INEC, a long distance telephone company headquartered in Los Angeles, California, is a subsidiary of Coyote Network Systems. Mr. Buchert received his BS from the University of Paris, France, and his postgraduate training from one of the major business schools in Paris (Institut des Hautes Etudes Commerciales).

Brian Robson - Chief Financial Officer

Mr. Robson is the Chief Financial Officer of Coyote Metro. Mr. Robson brings a wealth of global experience in business strategy, financial management and previous controller positions and is well versed in the manufacturing of telecommunications systems. Mr. Robson joined the Company from Ascom Timeplex, a subsidiary of Ascom A.G. (Switzerland). He has also held positions as Controller for multiple international operations within Northern Telecom. Mr. Robson is a graduate of the Metropolitan College, St. Albans UK (ACCA).

Helen Legendre - Executive Vice President

Helen Legendre is the Executive Vice President of Coyote Metro. She has over twenty-five years of management experience and over six years telecommunications experience. Her responsibilities include finance, cash flow and other accounting responsibilities, Human Resources and administration. She holds a BA from the University of Paris.

Janice W. Gordon - Vice President

Ms. Gordon is Vice President of Sales and Marketing for Coyote Metro. She has over twenty years of marketing experience and has spent the last twelve years in telecommunications sales and marketing. She has worked in all areas of international telecommunications including corporate sales, international call back and carrier sales. Most recently, as Vice President of Sales and Marketing for Cyberlight International, Inc. she was responsible for prepaid calling cards, with annual sales in excess of $40,000,000. She holds a BS degree in Business from the University of Southern California.

Coyote Metro, LLC
Management Profiles

Stan Alvidrez - Carrier Relations and Product Development Manager

Mr. Alvidrez is the Carrier Relations and Product Development Manager for Coyote Metro. He has over twenty-five years management experience and over six years of telecommunications experience. His responsibilities include carrier relations and rate management, new product development, regulatory and contract negotiation and management. He was most recently with EDS as a regulatory manager. He holds a BA from California State Univeristy, Northridge.

Tarek Jamal - Operations Manager

Mr. Jamal is the Operaitons Manager and brings to that position over five years of management experience and two years of experience in telecommunications. His responsibilities include the integrity and development of the company's network, managing a staff responsible for local long distance, debit card switching and the provisioning of new accounts for service. In addition, his responsibilities include the development of interface procedures with the ILECs. Mr. Jamal holds a BS degree from the University of Damascus.

Shelby G. Deal - Customer Service Manager

Ms. Deal is the Customer Service Manager for Coyote Metro. She joined the firm in July of 1998. She has six years of management experience with three and one half years specific to customer service management in telecommunications as a customer service manager. Her duties include the handling of all calls requiring the attention of the department manager, the hiring and staff development of the customer service department, and acting as a liaison between customer service and all departments. She has been responsible for ten customer service representatives that are mutli-lingual. She also performed as project leader to obtain a CLEC license in California for both Pacific Bell and GTE.

TECHNOLOGIES · MANAGEMENT INC

210 N. Park Ave.
Winter Park, FL
32789

P.O. Drawer 200
Winter Park, FL
32790-0200

Tel: 407-740-8575
Fax: 407-740-0613
tmi@tminc.com

May 10, 2000
Overnight

Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oaks Boulevard
Tallahassee, FL 32399-0870

DEPOSIT DATE
D293 MAY 12 2000

000577-TI

RE: Initial Application to Provide Interexchange Telecommunication Services
Coyote Metro, LLC d/b/a INET Local Phone Service

Dear Ms. Bayo:

Enclosed for filing are the original and six copies of the above referenced application of Coyote Metro, LLC d/b/a INET Local Phone Service to provide Interexchange Telecommunication Service in Florida. The company primarily offers bundled local and long distance services and has simultaneously filed an application and tariff for Alternative Local Exchange Service.

The company has filed for interexchange authority under a separate application and submitted the $250 filing fee at that time. Questions pertaining to this application or tariff should be directed to my attention at (407) 740-8575.

Please acknowledge receipt of this filing by returning, file-stamped, the extra copy of this cover letter in the self-addressed, stamped envelope enclosed for this purpose.

Thank you for your assistance.

TECHNOLOGIES MANAGEMENT, INC.
P.O. BOX 200
WINTER PARK, FL 32790-0200
(407) 740-8575

BANK OF AMERICA
WINTER PARK, FL 32789
63-27/631

26221

5/9/2000

PAY TO THE ORDER OF Florida Public Service Commission $ **250.00

Two Hundred Fifty and 00/100** DOLLARS

Security features included. Details on back.

Florida Public Service Commission
Records & Reporting
2540 Shumard Oaks Blvd.
Tallahassee, Fl 32302-1500

TECHNOLOGIES MANAGEMENT, INC.

MEMO florida Public Service Commision

MP

⑈026221⑈

TECHNOLOGIES · MANAGEMENT INC ·

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Winter Park, FL
32789

P.O. Drawer 200
Winter Park, FL
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Tel: 407-740-8575
Fax: 407-740-0613
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May 10, 2000
Overnight

Blanca Bayo, Director
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2540 Shumard Oaks Boulevard
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DEPOSIT D293 DATE MAY 12 2000

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Please acknowledge receipt of this filing by returning, file-stamped, the extra copy of this cover letter in the self-addressed, stamped envelope enclosed for this purpose.

Thank you for your assistance.

Sincerely,

Monique Byrnes

Monique Byrnes
Consultant to
Coyote Metro, Inc.

cc: H. Legendre, Coyote
file: Coyote - FL
tms: fli0000