

TC03-085

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RECEIVED

MAY 12 2003

Also Admitted in New York
and Maryland

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

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May 9, 2003

VIA FEDERAL EXPRESS

Mr. William Bullard
Executive Director
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070
(605) 773-3201

Re: Covista, Inc.

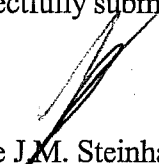
Dear Mr. Bullard:

Enclosed please find one original and ten (10) copies of Covista, Inc.'s Application for Registration of a Telecommunications Company to Provide Local Exchange Service. The company currently has authority to provide Interexchange Service.

I have also enclosed an extra copy of this cover letter to be date stamped and returned to me in the enclosed self-addressed prepaid envelope.

If you have any questions, please do not hesitate to contact me.

Respectfully submitted,


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

Enclosures

cc: Thomas P. Gunning (w/enc)

APPLICATION FOR REGISTRATION
OF COVISTA, INC.
FILED WITH THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)
APPLICATION OF)
COVISTA, INC.)
)
FOR AN ORDER)
AUTHORIZING THE REGISTRATION)
OF APPLICANT AS A)
TELECOMMUNICATIONS COMPANY)
TO PROVIDE LOCAL EXCHANGE)
SERVICE)

Docket No.

RECEIVED

MAY 12 2003

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION**

APPLICATION

Application is hereby made to the South Dakota Public Utilities Commission for an Order authorizing Covista, Inc. ("Covista" or "Applicant") to register as a telecommunications company to provide resold and facilities-based/UNE-P local exchange service within the State of South Dakota. The following information is furnished in support thereof:

1. Name, Address, Telephone Number, and e-mail of Applicant

Covista, Inc.
721 Broad Street, 2nd Floor
Chattanooga, Tennessee 37402
(423) 648-9500 (Phone)
(423) 648-9502 (Fax)
tgunning@covista.com(e-mail)

Applicant has no local office in South Dakota at this time.

All inquiries regarding customer complaints and other regulatory matters should be addressed to:

Tony Barrett, VP of Operations
721 Broad Street, 2nd Floor
Chattanooga, Tennessee 37402
Telephone: (423) 648-9600
Facsimile: 423) 648-9602
tbarrett@covista.com

2. Registered Agent

The name and address of the Applicant's registered agent are:

TCS Corporate Services, Inc.
c/o Marilyn Person
819 West Third
Pierre, South Dakota 57501

3. Description of the Applicant

Applicant is incorporated in the State of New Jersey and is in good standing under the laws of that state. A copy of the Company's Articles of Incorporation, as amended, is attached to this Application as Exhibit A. In addition, the Company is authorized to do business as a foreign corporation in the State of South Dakota. Attached as Exhibit B to this Application is a copy of the Company's certificate of qualification to transact business issued by the South Dakota Secretary of State. The Applicant was formerly known as TotalTel, Inc. Applicant is a

wholly owned operating subsidiary of Covista Communications, Inc., a publicly traded SEC reporting company.

Applicant is authorized to, and is providing long distance services throughout the United States. For South Dakota, See Docket No. TC97-187. Applicant is authorized to provide local exchange services in California, Colorado, Connecticut, Delaware, Florida, Illinois, Minnesota, North Carolina, Ohio, Oregon, Pennsylvania, Texas, Virginia, Washington D.C. and Washington. Applicant is in the process of applying for authorization to provide competitive local exchange services in the 48 contiguous states and Hawaii. Applicant has not been denied authority for any of the services for which it seeks authority in this Application. Applicant is not currently providing service, however, it intends to initiate such service in selected markets in the next 90 days.

The senior management of Covista has great depth in the telecommunications industry and offers extensive telecommunications business technical and managerial expertise to Covista. Since Covista will be providing resold and facilities-based/UNE-P local service, Covista will also rely upon the managerial and technical expertise of the incumbent facilities-based/UNE-P local exchange carriers that have been certified and deemed technically and managerially able to provide exchange service by the Commission. The relevant operational experience of Applicant's key management employees is set forth in Exhibit C which is attached hereto. Detailed information about the company can be found in Exhibit D.

The Applicant's customers will primarily be small and medium-sized businesses that need local exchange, access, private line, long distance, data, and other telecommunication services.

4. Facilities

If Covista installs facilities in South Dakota, it will probably use the following or a similar configuration of equipment: Applicant will provide voice and high speed data services through a combination of the latest technology switching and transport media comprised of the Lucent Technology 5 ESS Generic 13 switch module, ADSL/SDSL transport and Internet service equipment and the latest Optical multiplexer DAC's configurations. The switching system consists of a central processing and control complex capable of interconnection as a

peer to the incumbent as well as competitive local exchange companies. The hub portion of the switch will interconnect with the public switched network on Signaling System 7 ("SS7") or Feature Group D ("FGD") facilities. The system's remote module capability will allow properties to be served in a manner that provides the exchange of appropriate signaling, control and calling/caller information to the network in accordance with network standards and specifications. Additionally, these services will be delivered over a combination of delivery mechanisms through incumbent local carriers' unbundled loop network, both copper and fiber and transport networks, as well as via Covista constructed facilities. All of Applicant's equipment is capable of providing local number portability, and is compliant and compatible with existing 911 systems. At the time of the filing of this application, none of this equipment has been installed in the State of South Dakota.

5. Stockholders

The names and address of the each stockholder of Applicant owning 20% or more of the interest in the business are as follows:

Name and Address	Shares Owned	Percentage of all Shares Issued and Outstanding and Voting Control
Covista Communications, Inc. 721 Broad Street, 2nd Floor Chattanooga, Tennessee 37402	420	100%

6. Officers and Directors

The names and addresses of the officers and directors of Covista, Inc. are:

Officers:

A. John Leach	President & CEO
Thomas P. Gunning	CFO, Treasurer & Secretary
Kevin Alward	Chief Operating Officer

Directors:

A. John Leach
Kevin Alward
Henry G. Luken
Leon Genet
Jay J. Miller
Donald Jones
W. Thorpe McKenzie
Nicholas Merrick

All of the above-named individuals can be reached at:

Covista, Inc.
721 Broad Street, 2nd Floor
Chattanooga, Tennessee 37402

7. Corporate Ownership

The name and address of any corporation, association or similar organization holding a five percent (5%) or greater ownership in the Applicant is as follows:

Covista Communications, Inc.
721 Broad Street, 2nd Floor
Chattanooga, Tennessee 37402

8. Subsidiaries owned or controlled by Applicant

None

9. Description of Services

When Applicant provides services in this state, Applicant will provide services through facilities of incumbent local exchange carriers ("LECs"), as well as unbundled network elements. Covista will rely upon the incumbent local exchange companies (LEC) and other carriers for the provision and access to emergency services (911 or E911), operator services, directory assistance, and telecommunications relay services. Covista seeks authority to resell and provide facilities-based/UNE-P local exchange services throughout the State of South Dakota in the areas served by any LECs in South Dakota that are not eligible for a small or rural carrier exemption pursuant to Section 251(f)(1) of the Federal Act. Upon initiation of service in Alabama, Covista, Inc., (Covista) proposes initially to offer

resold local exchange services and local services utilizing the UNE-P platform. Such services will be provided by utilizing the facilities of incumbent local exchange carriers ("LECs"), as well as unbundled network elements. Covista intends to provide all forms of local exchange telecommunications services including:

Local Exchange:

- A. Local Exchange Services for business and residence customers that will enable customers to originate and terminate local calls in the local calling area served by other LECs.
- B. Switched local exchange services, including basic service, trunks, carrier access, and any other switched local services that currently exist or will exist in the future.
- C. Non-switched local services (e.g., private line) that currently exist or will exist in the future.
- D. Centrex and/or Centrex-like services that currently exist or will exist in the future.
- E. Digital subscriber line, ISDN, and other high capacity line services.

10. Financial Qualifications

Applicant is financially qualified to provide intrastate local exchange telecommunications services within South Dakota. In particular, Applicant has adequate access to the capital necessary to fulfill any obligations it may undertake with respect to the provision of intrastate local exchange telecommunications services in the State of South Dakota. See Covista Communications, Inc.'s Form 10-K for the year ended January 31, 2002 and Form 10-Q for the period ended October 31, 2002, Exhibit D.

The company will not require prepayments, advance payments or deposits.

11. Service Area Map

Covista will concur in the exchange area boundaries established by the incumbent LECs.

12. Tariff

Attached hereto as Exhibit E is a copy of local exchange tariff, which is being filed for informational purposes only since Applicant intends to serve less than 50,000 local exchange subscribers in South Dakota.

13. Billing

Applicant will direct bill local exchange customers utilizing completed call detail information from its underlying carriers, and from its own switching equipment.

14. Solicitation of Customers

Covista will not submit a change order for local exchange service until Covista has obtained the customer's written authorization to submit the order which includes the following information from the customer: (1) The customer billing name, billing telephone number and billing address and each telephone number to be covered by the change order; 2) The decision to change; and (3) The customer's understanding of the change fee, if any.

15. Description of Marketing

Applicant intends to market its services to primarily small to mid-sized businesses and residential customers. Applicant will market through direct sales by employees and agents. Applicant does not intend to engage in multilevel marketing. Applicant's marketing materials for South Dakota have not yet been developed and are not available at this time.

16. Cost Support:

Applicant intends to provide services at a price above its cost. Applicant intends to serve less than 50,000 local exchange subscribers in South Dakota, therefore, is not required to file cost support information.

17. Federal Tax Identification Number:

22-1658949

18. The Number and Nature of Complaints filed against the Applicant with any state or federal regulatory commission regarding the unauthorized switching of a customer's local telecommunications provider and the act of charging customers for services that have not been ordered:

None

19. Customer Service

Applicant's customer service department may be contacted nationwide via a toll-free number, (800) 805-1000. The Company will maintain a Customer Service Department in Tennessee exclusively for Customers' questions, requests for service, complaints and trouble handling. The Company's Customer Service address and local or toll free number(s) will be printed on the Customer's bill. The Customer Service Department will be located at 721 Broad Street, 2nd Floor, Chattanooga, Tennessee 37402. The Company also intends to have a locally staffed office at one or more hub site locations in each state and will provide its customers with a local Customer Service number that will be available 24 hours per day, 7 days per week.

Office Hours- Excluding holidays, Customer Service Representatives will be available 8:00 AM to 5:00 PM standard time Monday through Friday. After hours, Sundays and on holidays, Customers will automatically be forwarded to an answering service or operations center.

Complaint Procedures- The Customer shall pose any inquiries or disputes directly to the Company for resolution. Written communications should be directed to the Company's Customer Service department. All undisputed portions of any outstanding balance due are to be paid while resolution of the inquiry or dispute is pending. The Company will investigate a Customer inquiry or dispute and report the findings to the Customer. If

the Company finds its actions to be consistent with its Tariff, the Company will inform the Customer of its no fault finding and require full payment of any outstanding balance due. If the Customer is not satisfied with the Company's resolution of an inquiry or dispute, the Customer may refer the matter to the South Dakota Public Utilities Commission for final determination.

If Applicant installs facilities in the State of South Dakota, facility and equipment maintenance will be performed by the company, either directly or through contract, in order to ensure compliance with any commission quality of service requirements.

20. Interconnection

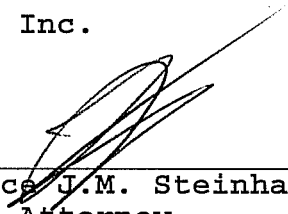
Applicant initially intends to interconnect with Qwest. Negotiations for interconnection will start at an as yet determined time following certification. Interconnection service is likely to be initiated within 180 days of completion of interconnection negotiations. Applicant has not requested interconnection with any local exchange carrier in South Dakota at this time.

WHEREFORE, the undersigned Applicant requests that the South Dakota Public Utilities Commission enter an order granting this application for a Certificate of Authority authorizing Applicant to provide resold and facilities-based/UNE-P local exchange services.

DATED this 9th day of May, 2003.

Covista, Inc.

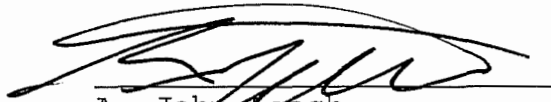
By:


Lance J.M. Steinhart
Its Attorney

State of Tennessee

County of Hamilton

A. John Leach, being first duly sworn, deposes and says that he/she is the President of Covista, Inc., the Applicant in the proceeding entitled above, that he/she has read the foregoing application and knows the contents thereof; that the same are true of his/her knowledge, except as to matters which are therein stated on information or belief, and to those matters he/she believes them to be true.



A. John Leach
President

Subscribed and sworn to before this 21st day of March, 2003.

Michelle Graham
Notary Public

My Commission expires: January 10, 2006

LIST OF EXHIBITS

- A - CERTIFICATE OF AUTHORITY
- B - ARTICLES OF INCORPORATION, AS AMENDED
- C - BIOGRAPHIES OF THE MANAGEMENT TEAM
- D - FINANCIAL STATEMENTS
- E - PROPOSED TARIFFS

EXHIBIT A - CERTIFICATE OF AUTHORITY

State of South Dakota



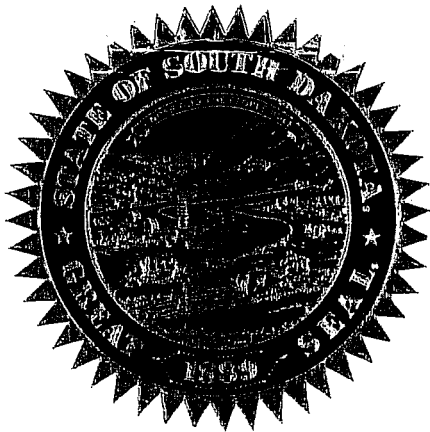
OFFICE OF THE SECRETARY OF STATE

Amended Certificate of Authority

I, **JOYCE HAZELTINE**, Secretary of State of the State of South Dakota, hereby certify that duplicate of the Application for an Amended Certificate of Authority of **TOTALTEL INC. (NJ) changing its name to COVISTA, INC.** to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Amended Certificate of Authority and attach hereto a duplicate of the application to transact business in this state.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this July 28, 2000.



Joyce Hazeltine

Joyce Hazeltine
Secretary of State

EXHIBIT B - ARTICLES OF INCORPORATION, AS AMENDED

CERTIFICATE OF INCORPORATION

OF

MANSOL CERAMICS COMPANY

This is to certify that we, the undersigned, do hereby associate ourselves in a corporation under and by virtue of the provisions of an Act of the Legislature of the State of New Jersey, entitled, "An Act Concerning Corporations," (Title 14 of the Revised Statutes of 1937) and do severally agree to take the number of shares of capital stock set opposite our respective names.

FIRST: The name of the corporation is

MANSOL CERAMICS COMPANY

SECOND: The location of the principal office

in this State is:

744 Broad Street
City of Newark
County of Essex

The name of the agent therein in charge thereof upon whom process against this corporation may be served is:

NATHAN RAVIN

THIRD: The objects for which the corporation is

formed are:

(a) To engage in the business of compacting, pressing and sintering powdered material, and to develop, manufacture, produce, sell, buy and exchange same. To develop, manufacture, produce, sell, buy, purchase, and exchange all types of electronic components, devices, mechanism of every nature and description, or any product, device, component or element used in connection therewith, including, but not by way of limitation, any and all types of ceramic devices, components or elements, and for any other purpose that the Board of Directors may deem advisable for the corporation to engage in.

(k) To purchase, hold, reissue and sell the shares of its own capital stock, provided that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

(l) To conduct business in any of the States, territories, possessions or dependencies of the United States, in the District of Columbia, and in any and all foreign countries, and to have one or more offices therein and to hold, purchase, mortgage and convey real and personal property therein without limit as to amount, but always subject to the laws of such state, territory, possession, dependency or country.

(m) In general, to carry on other business in connection with the foregoing, and to use and exercise all the powers conferred by Title 14, Corporations, General Revised Statutes of New Jersey, and to do any or all of the things hereinbefore set forth to the same extent as natural persons might or could do, and in any part of the world.

FOURTH: The By-Laws of this corporation shall be made, altered and amended by a majority vote of the directors of the corporation present at any meeting at which a quorum is present as prescribed in the said By-Laws.

FIFTH: The total authorized capital stock of this corporation is One Hundred Thousand (\$100,000.00) Dollars divided into one thousand (1000) shares of a par value of One Hundred (\$100.00) Dollars each.

(a) All or any part of the shares of common stock may be issued by the corporation from time to time, and for such consideration as may be determined and fixed by the Board of Directors as provided by law.

(b) No stockholder shall have pre-emptive

rights in the stock of this corporation.

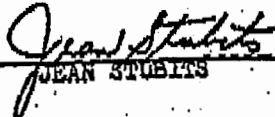
SIXTH: Any person made a party to any action, suit or proceeding by reason of the fact that he, his testator or intestate, is or was a director or officer of the Corporation, or of any corporation which he served as such at the request of the Corporation, shall be and by virtue of the enactment of this By-Law is hereby indemnified by the Corporation against the reasonable expenses, including attorneys' fees, actually and necessarily incurred by him in defending himself in such action, suit or legal proceeding, or in any appeal therein, except in relation to matters as to which such officer or director is liable for negligence or misconduct in the performance of his duties. Such right to indemnification shall exist whether or not such person continues to be a director or officer of the Corporation or of such other corporation at the time such expenses are incurred. As used in this Article, reasonable expenses shall include, in addition to any other costs which may be imposed upon or reasonably incurred by such director or officer, the amounts of judgments or amount paid in settlement by such officer or director, but shall not include any expenses incurred by such director or officer in connection with a matter which shall have been the subject of such action, suit or legal proceeding, disposed of otherwise than by adjudication on the merits, unless in relation to such matter such director or officer shall not have been liable for negligence or misconduct in the performance of his duties as such director or officer. The right to indemnity and the amount payable by way of indemnity shall be determined and paid in accordance with Section 14:3-4 of the Revised Statutes of the State of New Jersey.


SEVENTH: The names and post office addresses of the incorporators and the number of shares subscribed for by each, the aggregate of which \$3,000.00 of common stock is the amount of capital stock with which this company will commence business are as follows:

JEAN STURITS	4 McGinnis Road Metuchen, New Jersey	10 shares
CECILIA P. McCORMICK	393 Seventh Avenue Newark, New Jersey	10 shares
ZELMA RAVEN	82 Goldsmith Avenue Newark, New Jersey	10 shares

EIGHTH: The period of existence of this corporation is unlimited.

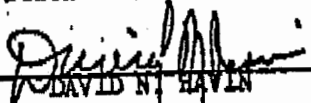
IN WITNESS WHEREOF, we have hereunto set our hands and seals this 8th day of March, 1960.


JEAN STURITS L.S.


CECILIA P. McCORMICK L.S.


ZELMA RAVEN L.S.

Signed, Sealed and
Delivered in the
Presence of


DAVID N. HAVLIN

STATE OF NEW JERSEY:

SS.

COUNTY OF B S S E X:

BE IT REMEMBERED, that on this 8th day of March, 1960, before me, the subscriber, personally appeared JEAN STUBINS, CECILIA P. McCORMICK, and ZELMA RAVEN, who, I am satisfied, are the persons named in and who executed the foregoing certificate, and, I having first made known to them the contents thereof, they did acknowledge that they signed, sealed and delivered the same as their voluntary act and deed for the uses and purposes therein expressed.



DAVID R. HAVIN
Attorney at Law of New Jersey

CERTIFICATE OF MERGER
of
MANSOL DEVELOPMENT CORPORATION

1. In accordance with Title 14A of the New Jersey Statutes, N.J.S. 14A:10-4, as amended, as made and provided, the corporation submits the following Plan of Merger, annexed hereto as Schedule "A", and made a part hereof, by reference as though set forth at length.

2. The number of shares outstanding and entitled to vote in favor of said Plan of Merger, are as follows:

(a) Mansol Ceramics Company, 30 shares outstanding, all voting stock. 30 shares voted unanimously in favor of the Plan of Merger.

(b) Mansol Development Corporation, 200 shares outstanding, voting stock. 200 shares voted unanimously in favor of the Plan of Merger.

3. Said merger was approved by the Board of Directors unanimously, of both corporations.

4. The merger shall become effective in accordance with the Plan of Merger, annexed hereto as Schedule "A", at the time of its filing with the Secretary of State.

5. This is to certify that the foregoing constitutes the Plan of Merger, as annexed, its unanimous approval by the Directors and stockholders of the respective corporations, and the date that it shall become effective.

ATTEST:

Leonard W. Russell
Secretary

Wm. B. Bush
President

Dated: January 6, 1970

The principal office of the corporation
is located at 140 Little Street, Belleville,
County of Essex, State of New Jersey-07109

AGREEMENT OF MERGER, dated the 6th day of January,

1970, by and between MANSOL DEVELOPMENT CORPORATION, a corporation organized under the laws of the State of New Jersey, hereinafter called "DEVELOPMENT", and MANSOL CERAMICS COMPANY, a corporation, organized under the laws of the State of New Jersey, hereinafter called "CERAMICS"

The authorized capital stock of Development consists of 1000 shares, Class A common non-par value voting stock, of which 200 shares are issued and outstanding; and 1500 shares of Class B common non-par value, non-vot γ , no shares of which are issued and outstanding.

The authorized capital stock of Ceramics consists of 30 shares of non-par voting stock of which 30 shares are issued and outstanding. Upon the effective date of the merger, hereinafter provided for, there shall be 1000 shares of non-par voting common stock to be issued and outstanding.

*Note: Cap
Stock*

The Boards of Directors of Development and Ceramics, respectively, deem it desirable and in the best interest of the corporations and their stockholders that Development be merged into Ceramics and the corporations respectively desire that they so merge under and pursuant to the laws of the State of New Jersey, as made and provided.

Now, therefore, in consideration of the premises and of the mutual covenants and agreements herein set forth and for the purpose of prescribing the terms and conditions of such merger, the parties hereto covenant and agree as follows:

1. As soon as all the following events shall have happened, viz.,

(a) This Agreement shall have been adopted and approved by the votes of the holders of all of the outstanding capital stock of Ceramics and Development, in accordance with the requirements of the laws of the State of New Jersey, as made and provided, and that fact shall have been certified hereon by the respective secretaries or assistant secretaries of each of such corporations under their respective corporate seals; and

(b) This Agreement, so adopted and certified, shall have been signed, acknowledged and filed, all as required by the provisions of Title 14A of New Jersey Statute (General Corporation Act of the State of New Jersey, as amended), as made and provided.

(c) A Certificate of Merger shall be executed on behalf of each corporation and shall be filed in the Office of the Secretary of State of New Jersey, in accordance with Title 14A: 10-4 of the New Jersey Statutes, as amended; thereupon Development shall be deemed to have merged with and into Ceramics which shall survive the merger and which shall have the name provided in paragraph 2 hereof.

The single corporation which shall so survive the merger is hereinafter sometimes called the Surviving Corporation; Development and Ceramics are hereinafter sometimes called the Constituent Corporations; and the date and time when the Constituent Corporations shall merge and become the Surviving Corporation are hereinafter referred to as "the effective date of the merger".

2. The name of the Surviving Corporation shall be Mansel Ceramics Company. The purposes for which the Surviving Corporation is formed and the nature of the business to be transacted by it shall be as set forth in the Act of Incorporation of

of Ceramics, as amended on the effective date of the merger.

3. On the effective date of the merger, the Act of Incorporation of Ceramics, as amended to date and as it will be amended by the Amendment-Articles of Consolidation filed in New Jersey, shall be the Act of Incorporation of the Surviving Corporation until further amended as provided by law.

4. On the effective date of the merger, the By-laws of Ceramic, as heretofore amended, shall be the By-laws of the Surviving Corporation until the same shall be altered, amended, or repealed, or until new By-laws shall be adopted, in accordance with the provisions thereof.

5. The Board of Directors of the Surviving Corporation shall consist of four (4) directors, and shall hold office until the next annual meeting of the stockholders of the Surviving Corporation; and until his successor shall have been duly elected and shall have qualified, or until his earlier death, resignation, or removal. The respective names, places of residence, and addresses of such directors are as follows:

Bernard P. Birnbaum Chairman	200 Powers Building Rochester, New York 14614
Saul I. Birnbaum Director	65 West 55th Street New York, New York 10019
Sol Feldman Director	1313 Mercedes Street Teaneck, New Jersey 07666
Manny Brucker, Director	51 Richard Drive Short Hills, New Jersey 07078

The principal officers of the Surviving Corporation, each of whom shall hold office until his successor shall have been duly elected or appointed and shall have qualified or until his earlier death, resignation, or removal, and their respective offices,

places of residence, and post office addresses, are as follows:

Bernard P. Birnbaum
Chairman of the Board

200 Powers Building
Rochester, N. Y. 14614

Manny Brucker
President

51 Richard Drive
Short Hills, N. J. 07078

Sol Feldman
Treasurer

1313 Mercedes Street
Tanneck, N. J. 07666

Leonard W. Burrell
Secretary

38 Crescent Terrace
Bellville, N. J. 07109

6. On the effective date of the merger, the total amount of capital stock of the Surviving Corporation to be authorized, the number of shares into which the capital stock is to be divided, and the par value of the shares are as follows:

1000 shares authorized non-par voting common stock; 965 shares thereon to be issued to the present stockholders of Ceramics; 35 shares thereof to be issued to the present stockholders of Development. The Certificate of Incorporation of the Surviving Corporation shall be deemed amended in accordance with the terms and provisions hereof.

It is acknowledged and confirmed by the Board of Directors of the respective corporations that Faradyne Electronics Corp. is the stockholder of 100% of the issued and outstanding capital stock of Development and Ceramics and accordingly will be the owner of 100% of the issued and outstanding capital stock of Surviving Corporation.

7. Upon the issuance of the shares of capital stock, as provided hereinabove, in exchange for the shares of Development and Ceramics in the Surviving Corporation, the shares so surrendered to the Surviving Corporation shall be cancelled of record and appropriately marked in the stock ledger of the respective

corporations.

8. On the effective date of the merger Development shall cease to exist separately and shall be so merged with an into Ceramics in accordance with the provisions of the Agreement and in accordance with the provisions of and with the effect provided in Title 14A of the New Jersey Statutes (New Jersey Corporation Act), as amended, as made and provided. As provided therein, on the effective date of the merger, the Surviving Corporation shall possess all the rights, privileges, powers, franchises and trust and fiduciary duties, powers, and obligations, as well of a public as of a private nature, and be subject to all the restrictions, disabilities, and duties of each of the Constituent Corporations, and all and singular, the rights, privileges, powers, duties, and obligations, of each of the Constituent Corporations; and all property, real, personal, and mixed, and all debts due to either of the Constituent Corporations on whatever account, as well for stock subscriptions as all other things in action or belonging to each of the Constituent Corporations shall be vested in the Surviving Corporation; and all property, rights, privileges, powers, and franchises, and all and every other interest shall be thereafter as effectually the property of the Surviving Corporation as they were of the respective Constituent Corporations; and the title to any real estate, whether vested by deed or otherwise, in either of the Constituent Corporations shall not revert or be in any way impaired by reason of the merger; provided, however, that all rights of creditors and all liens upon any property of either of the Constituent Corporations shall be preserved unimpaired, and all debts, liabilities, and

duties of the respective Constituent Corporations shall thenceforth attach to the Surviving Corporation, and may be enforced against it to the same extent as if such debts, liabilities, and duties had been incurred or contracted by the Surviving Corporation.

9. From time to time, as and when requested by the Surviving Corporation or by its successors or assigns, Development will execute and deliver, or cause to be executed and delivered, all such deeds and other instruments; and will take or cause to be taken such further or other action as the Surviving Corporation may deem necessary or desirable in order to vest in and confirm to the Surviving Corporation title to and possession of all its property, rights, privileges, powers, and franchises and otherwise to carry out the intent and purposes of this Agreement.

10. The location of the principal office of the Surviving Corporation shall be 140 Little Street, Belleville, New Jersey. Registered agent Sol Feldman.

11. The Surviving Corporation hereby reserves the right to amend, alter, change, or repeal any provision contained in its Act of Incorporation, as from time to time amended, and any provision contained in the Agreement, in the manner now or hereafter prescribed by law or by such Act, as from time to time amended; and all rights and powers of whatsoever nature conferred in such Act of Incorporation, as from time to time amended, or herein, upon any stockholder, director, officer, or any other person are subject to this reservation.

IN WITNESS WHEREOF, Mansol Ceramics Company and Mansol

Development Corporation, have caused this Agreement to be signed in their corporate names by their respective Presidents or Vice-Presidents and their respective Secretaries or Assistant Secretaries under the seals of the corporations, all as of the day and year first above written.

Attest:

Leonard W. Powell
Secretary

MANSOL CERAMICS COMPANY

By Murray B. Rubin
President

Attest:

Leonard W. Powell
Secretary

MANSOL DEVELOPMENT CORPORATION

By Murray B. Rubin
President

CERTIFICATE OF SECRETARY OF MANSOL CERAMICS
COMPANY, a corporation

This is to certify, as Secretary of MANSOL CERAMICS
COMPANY, that the foregoing Agreement was adopted by a majority
of the stockholders and directors of the corporation, on the
6th day of January, 1970.

Leland H. Powell
Secretary

CERTIFICATE OF SECRETARY OF MANSOL DEVELOPMENT
CORPORATION, a corporation

This is to certify, as Secretary of MANSOL DEVELOPMENT
CORPORATION, that the foregoing Agreement was adopted by a
majority of the stockholders and directors of the corporation,
on the 6th day of January, 1970.

Leland W. Burrell

Secretary

STATE OF NEW JERSEY:
COUNTY OF Essex SS:

BE IT REMEMBERED that on this 22nd day of January in the year One Thousand Nine Hundred and Seventy, before me, the subscriber, a Notary Public of New Jersey personally appeared Leonard W. Burrell who, being by me duly sworn on his oath, doth depose and make proof to my satisfaction, that he is the Secretary of Mansoul Development Corporation, that Manny Burrell named in the within Instrument is the President of said corporation; that the execution, as well as the making of this Instrument has been duly authorized by a proper resolution of the Board of Directors of said corporation; that deponent well knows the corporate seal of said corporation; and the seal affixed to said Instrument is such corporate seal and was thereto affixed and said Instrument signed and delivered by said President, as and for his voluntary act and deed and as and for the voluntary act and deed of said corporation, in presence of deponent, who thereupon subscribed his name thereto as witness.

Leonard W. Burrell
Secretary

Sworn and subscribed before
me,

at January 29
the date aforesaid

Ethel Lieb
A Notary Public of New Jersey.


ETHEL LIEB
NOTARY PUBLIC OF NEW JERSEY.
My Commission Expires Nov. 7, 1974

JOINT RESOLUTION OF BOARD OF DIRECTORS
and STOCKHOLDERS
OF
MANSOL CERAMICS COMPANY

At a special joint meeting of the Board of Directors
of Mansol Ceramics Company, and upon motion made and duly carried,
it was unanimously resolved that the following resolution be
approved:

"BE IT RESOLVED, that the corporation be and hereby
is authorized to act upon a Plan of Merger between Mansol
Ceramics Company and Mansol Development Corporation,
and the amendment of the Certificate of Incorporation,
in accordance with the provisions of the Plan of Merger,
and be it further

RESOLVED, that the President of the corporation be
authorized to execute the Agreement of Merger, dated
the 6th day of January, 1970, and to execute such other
and further documents and Certificates as may be re-
quired".


Secretary

JOINT RESOLUTION OF BOARD OF DIRECTORS
and Stockholders
of
MANSOL DEVELOPMENT CORPORATION

At a special joint meeting of the Board of Directors of Mansol Development Corporation, and upon motion made and duly carried, it was unanimously resolved that the following resolution be approved:

"BE IT RESOLVED, that the corporation be and hereby is authorized to act upon a Plan of Merger between Mansol Development Corporation and Mansol Ceramics Company, and the amendment of the Certificate of Incorporation, in accordance with the provisions of the Plan of Merger, and be it further

RESOLVED, that the President of the corporation be authorized to execute the Agreement of Merger, dated the 6th day of January, 1970, and to execute such other and further documents and Certificates as may be required".

Donald W. Powell

Secretary

993199

FILED AND RECORDED

JAN 23 1970

Paul J. Williams
SHERIFF OF MISSOURI

LIQUOR TAX	10.00
SALES TAX	25.00
RECORDS	18.00
CERTIFIED COPY	---
SEC. OF STATE	10.00
TC	453.00

James E. Williams
140 Bellvue St
St. Louis, Mo 63102

MISSOURI DEPARTMENT OF REVENUE
ST. LOUIS, MISSOURI 63102

STATE OF MISSOURI
DEPARTMENT OF REVENUE
ST. LOUIS, MISSOURI 63102

MISSOURI DEPARTMENT OF REVENUE
ST. LOUIS, MISSOURI 63102

MISSOURI DEPARTMENT OF REVENUE

ST. LOUIS, MISSOURI 63102

N/c

NCB
FILED

MAR 1 1994

AMENDED CERTIFICATE OF INCORPORATION
OF
MANSOL CERAMICS COMPANY

LONNA R. HOOKS
Secretary of State
0919636

The undersigned hereby certifies that the following is an amendment to the certificate of incorporation of Mansol Ceramics Company (same being originally filed March 9, 1960), duly authorized by a vote of the shareholders all in accordance with N.J.S.A. 14A:9-2(4). In accordance with the requirements of N.J.S.A. 14A:9-4(a), the following information is set forth:

FIRST: The name of the corporation is Mansol Ceramics Company.

SECOND: The Certificate of Incorporation filed March 9, 1960 is hereby amended to change the name of the corporation to
TOTALTEL INC. *an*

THIRD: On February 4, 1994, Total-Tel USA Communications, Inc., the sole shareholder in the corporation, by unanimous consent of its Board of Directors, consented to the above amendment.

FOURTH: The effective date of this amendment shall be the date of the filing hereof.

IN WITNESS WHEREOF, the undersigned being duly authorized by the Board of Directors, and with the consent of the sole shareholder, does hereby set his hand and seal this 17 day of February, 1994.

ATTEST:

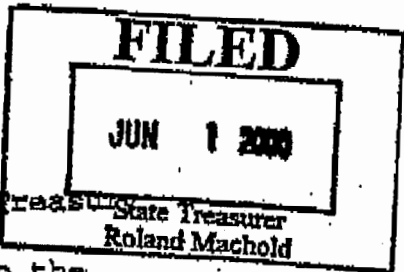
MANSOL CERAMICS COMPANY

Lonna R. Hooks

Warren H. Feldman
WARREN H. FELDMAN
President &
Chief Executive Officer

5639180000
Y 093199

CGN



C-102A Rev 12/93

New Jersey Department of the Treasury
Division of Revenue
Certificate of Amendment to the
Certificate of Incorporation
(For Use by Domestic Profit Corporations)

Pursuant to the provisions of Section 14A:9-2 (4) and Section 14A:9-4 (3), Corporations, General, of the New Jersey Statutes, the undersigned corporation executes the following Certificate of Amendment to its Certificate of Incorporation:

1. The name of the corporation is: TOTALTEL, INC.
2. The following amendment to the Certificate of Incorporation was approved by the directors and thereafter duly adopted by the shareholders of the corporation on the 31st day of May, 2000:

Resolved, that Article FIRST of the Certificate of Incorporation be amended to read as follows:

FIRST: The name of the corporation is Covista, Inc.

3. The number of shares outstanding at the time of the adoption of the amendment was: Not Applicable
The total number of shares entitled to vote thereon was: Not Applicable
4. The number of shares voting for and against such amendment is as follows:

Number of Shares
Voting for Amendment
Not Applicable

Number of Shares
Voting Against Amendment
Not Applicable

BY:

A. John Leach, Jr.
President

Dated this 31st day of May, 2000

797402
1502100
1502101

5639180000

STATE OF NEW JERSEY
DEPARTMENT OF TREASURY
FILING CERTIFICATION (CERTIFIED COPY)

COVISTA, INC.

I, the Treasurer of the State of New Jersey,
do hereby certify, that the above named business
did file and record in this department the below
listed document(s) and that the foregoing is a
true copy of the
Certificate Of Incorporation
Certificate Of Merger
Certificate Of Amended
Certificate Of Amendment
as the same is taken from and compared with the
original(s) filed in this office on the date set
forth on each instrument and now remaining on file
and of record in my office.



IN TESTIMONY WHEREOF, I have
hereunto set my hand and
affixed my Official Seal
at Trenton, this
24th day of July, 2000

Roland M Machold

Roland M Machold
Treasurer

EXHIBIT C - BIOGRAPHIES OF THE MANAGEMENT TEAM

Henry G. Luken, III was elected a Director of Covista in February, 1999, and Chairman of the Board in February, 2001. Currently, he is President of Mont Lake Properties, Inc., a real estate development firm; a director of Equity Broadcasting Corp., a TV network; a director of ACNTV, a home shopping company selling through TV; Managing Agent of Henry IV LLC, an aircraft sales company. A co-founder of Telco Communications Group Inc., he served as Chief Executive Officer and Treasurer from July, 1993 to April, 1996, and Chairman from July, 1993 to October, 1997. Mr. Luken has also served as Chairman of Tel-Labs, Inc., a telecommunications billing firm ("Tel-Labs") since 1991, and as Chairman of Telco Development Group, Inc., a computer systems firm owned by Mr. Luken, since 1987, both of which entities he founded.

Walt Anderson was elected a Director of Covista in February, 1999, and as Chairman of the Board in November, 1999. He stepped down as Chairman in February, 2001. He has been Manager of Revision LLC from June 1998 to the present; President and Chairman of Entree International Ltd. (Financial Consulting Services) from July, 1997 to the present; Chairman of Capsule Communications, Inc. as of April 2001, Chairman of Teleport UK Ltd. (Satellite Communications) from May, 1996 to the present; Chairman of Espirit Telecom Group plc. (Telecom Services) from October, 1992 to November, 1998 and President and Chairman, Mid Atlantic Telecom (Telecom Services), from May, 1984 to December, 1993. Mr. Anderson is also a director of American Technology Labs (Network Equipment) and Aquarius Holdings Ltd. (Water Transport Systems),

Leon Genet has served as a Director since October, 1996. For more than the past five years, he has been a partner in Genet Realty, a commercial and industrial real estate brokerage firm. He serves as a member of the National Commerce and Industry Board for the State of Israel Bonds Organization and is a shareholder, director and officer of LPJ Communications, Inc., which has earned commissions from Covista on the same basis as other independent sales representatives. See "Certain Relationships and Related Transactions".

A. John Leach, Jr. was appointed President and Chief Executive Officer and a Director of Covista on May 18, 2000. He had been Senior Vice President of Sales at BTI Telecomm, Inc., from December, 1999 to May, 2000; Senior Vice President of Teleglobe, Inc. from June, 1996 to December, 1999, where he assumed responsibility for US and Canadian commercial sales markets. He was promoted to this position from Senior Vice President of Wholesale and Agent Markets, Telco Communications (a subsidiary of Teleglobe, Inc.) June, 1996 to February, 1999. Prior to that, Mr. Leach was Vice President of Agent Services at BTI Telecomm, from December, 1989 to June, 1996. Regional Sales Manager of Mobilecomm (a Bell South Company) where he started in sales and rose to a Regional Sales Manager position May, 1985 to December, 1989.

Jay J. Miller, Esq. has served as a Director since 1983. He has been a practicing attorney for more than 35 years in New York. He is Chairman of the Board of AmTrust Pacific Ltd., a New Zealand real estate company. He is also a director of Technology Insurance Company, Inc., a provider of various insurance products to the technology industry, and certain of its affiliates. Mr. Miller has performed legal services on behalf of Covista. See "Certain Relationships and Related Transactions."

Thomas P. Gunning was appointed Vice President, Secretary / Treasurer of Covista in May 1999. He was appointed Chief Financial Officer in September, 1994 and served in that capacity until May of 1999. He was again appointed Chief Financial Officer in May of 2000. He was appointed Secretary of Covista in January of 1995. He has served as Controller of Covista since September, 1992. He is a Certified Public Accountant licensed by the States of New York and New Jersey. From 1989 until joining Covista, Mr. Gunning was the Senior Audit Manager at Rosenberg Selsman & Company, a certified public accounting firm. From 1976 to 1989, he was Chief Financial Officer of Flyfaire, Incorporated, a travel wholesale operator. Prior to such time, Mr. Gunning held various positions in both public and private accounting firms.

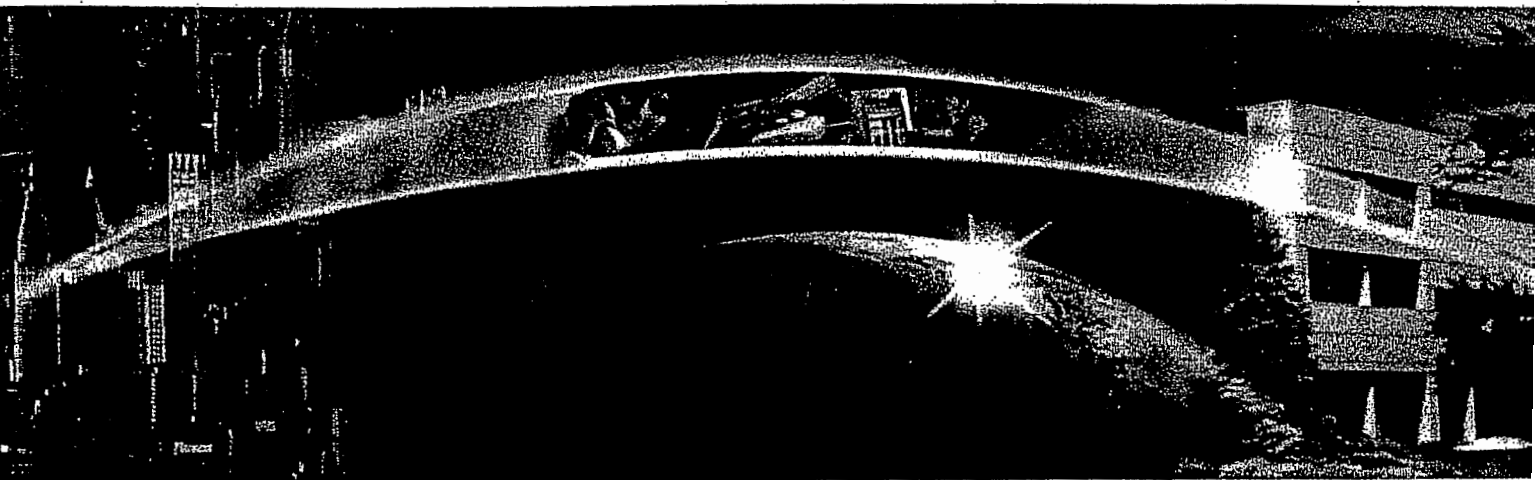
Donald Jones recently retired from his position as Senior Vice President for Chapter Services of the American Red Cross, for which he worked since 1991. Prior to joining the Red Cross, Mr. Jones was Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy. Mr. Jones served in the United States Army for over 35 years and retired in 1991 with the permanent rank of Lieutenant General.

Nicholas Merrick currently serves as President of Mt Vernon Investments, LLC, an investment company, which he has served as President since January 2002. Mr. Merrick served as Senior Vice President and Chief Financial Officer of Telergy, Inc., a high-speed fiber optic communications network company, from May, 2000 to July, 2001. Telergy filed for reorganization under the bankruptcy laws in October 2001 and is currently in the process of liquidation. Prior to joining Telergy, Mr. Merrick was Chief Executive Officer of Up2 Technologies, Inc. and Executive Vice President of Excel Communications, each of which is a subsidiary of Teleglobe, Inc. (global communications, e-business services), from 1998 until 2000. From 1996 to 1997, he was Vice President and Chief Financial Officer of Telco Communications Group, Inc., and from 1985 to 1996, he was Vice President of Corporate Finance at the Robinson-Humphrey Company, Inc. and Managing Director of R-H Capital Partners.

Kevin A. Alward was appointed Chief Operating Officer of Covista on March 29, 2001 and was elected a director of Covista on July 17, 2001. He had previously served TotalTel USA as President and Chief Operating Officer from 1994 to 1998, when he left the company to become President of North America for Destia Communications, Inc. (formerly known as Econophone, Inc.) and its successor by merger, Viatel, Inc. In April 2000, he co-founded Blink Data Corp. a telecommunications and data services provider headquartered in northern New

EXHIBIT D - FINANCIAL STATEMENTS

COVISTA
COMMUNICATIONS INC.



2002
Annual Report

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

FORM 10-K

(Mark one)

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

For the Fiscal year ended January 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission File Number 0-2180

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

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

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

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

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

Securities registered pursuant to Section 12 (b) of the Act:
None

Securities registered pursuant to Section 12 (g) of the Act:
Common Stock, \$.05 par value per share

Indicate by check mark whether Covista Communications, Inc. ("Covista" or the "Company")(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 Covista 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 Company'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

Aggregate market value (based upon a \$4.29 closing price) of the voting stock held by nonaffiliates of Covista as of
April 30, 2002: \$16,360,911

Number of shares of Common Stock outstanding on April 30, 2002: 12,636,949

Documents Incorporated By Reference:
None

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS:

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

ITEM 1. Business

General

Covista was incorporated in 1959 as Faradyne Electronics Corp. In November 1991, Covista changed its name from Faradyne Electronics Corp. to Total-Tel USA Communications, Inc. In September, 2000, Covista adopted its present name, Covista Communications, Inc.

Covista is a long distance telecommunications, internet and data services provider. Covista operates two distinct business segments: retail and wholesale. The retail segment provides long distance, data and internet services to small and medium sized businesses, principally in the Northeast region of the United States. The wholesale segment sells long distance telecommunication services to other carriers for resale. Covista utilizes its own switching equipment and leased fiber optic transmission cable. Covista's products and services include a broad range of voice, data and internet solutions, including long distance and toll-free services; calling cards, data; internet access, virtual private network, directory assistance and teleconferencing services. The wholesale division provides domestic and international termination services to carriers worldwide at competitive rates. Covista currently owns and operates three switches, one in New York City, one in Newark, New Jersey, and one in Philadelphia Pennsylvania and announced plans to expand to additional switch sites in Minneapolis, Dallas and Chattanooga. In July 2001, Covista announced that it had acquired long-term access to nationwide network facilities comprising 2,822,400,000 channel miles of telecommunications capacity measured by length of voice-grade circuits. In addition, Covista currently offers internet services using two routers that it owns and operates located in New York City and Northern New Jersey. Covista processes approximately 85 percent of all its call volume through its own facilities. Covista also operates a network operations center in Northern New Jersey to monitor and control its New Jersey network and to coordinate its various services. In October, 2001, Covista announced the opening of a new call center facility in Chattanooga, Tennessee, and that it is planning to relocate its corporate headquarters to Chattanooga from Little Falls, New Jersey. Covista previously was known as Total-Tel USA Communications, Inc.

In the retail market, Covista has segmented potential customers and tailored its service offerings, sales, marketing approach and network development to provide service in a cost-effective manner. Covista believes its customer service to be one of its principal competitive advantages. Covista applies a dedicated team approach to soliciting and servicing its clients, with substantial involvement of sales, customer service and technical personnel in all aspects of customer relations. Covista intends to continue to focus its efforts on small to medium-sized businesses with sales of \$1 million to \$60 million and monthly communications bills that range from \$500 to \$30,000. Covista's focus on customer service has also enabled it to attract larger customers. During the fourth quarter 2002, Covista continued expanding services into the residential retail market with a new product offering.

For Fiscal 2002, Covista had gross revenues of approximately \$95 million, derived approximately 50% from wholesale and 50% from retail services. For Fiscal 2001, Covista's gross revenues were approximately \$134 million. Covista's retail sales activities have been concentrated in Northern New Jersey and New York City, where, Covista believes, approximately half of all United States multinational corporations have headquarters. Based on industry sources, this area is believed to represent 40% of the total United States telecommunications market. For the near-term, at least, Covista intends to continue its efforts on further penetrating commercial users of its services in the Northeast, from the Washington, D.C. market through Boston, Massachusetts, and to augment the services offered to its customers.

Covista's principal executive offices are located at 4803 Highway 58 North, Chattanooga, TN, 37416, and its telephone number is (423) 648-9700.

INDUSTRY OVERVIEW

History and Industry Development

Prior to 1984, AT&T dominated both the local exchange and long distance marketplaces by owning the operating entities that provided both local exchange and long distance services to most of the United States population. Although long distance competition began to emerge in the late 1970s, the critical event triggering the growth of long distance competition was the breakup of AT&T and the separation of its local and long distance businesses as mandated by the Modified Final Judgment (the "MFJ") relating to the breakup of AT&T. To foster competition in the long distance market, the MFJ prohibited AT&T's divested local exchange businesses, the Regional Bell Operating Companies ("RBOCs"), from acting as single-source providers of telecommunications services.

Although the MFJ established the preconditions for competition in the market for long distance services in 1984, the market for local exchange services has, until recently, virtually been closed to competition and has largely been dominated by regulated monopolies. Efforts to open the local exchange market began in the late 1980s on a state-by-state basis.

The Telecommunications Act of 1996, (the "1996 Act"), is considered to be the most comprehensive reform of the nation's telecommunications laws, affect the development of competition for local telecommunications services. The 1996 Act provides for the removal of legal barriers to entry into the local telecommunications services market, the interconnection of the Incumbent Local Exchange Carrier (the "ILEC") network with competitors' networks and the relaxation of the regulation of certain telecommunications services provided by Local Exchange Carriers ("LECs") and others. Procedures and requirements were established to be followed by the RBOCs, including the requirement that RBOCs offer local services for resale as a precondition to their entering the long distance and telecommunications equipment manufacturing markets.

The continuing deregulation of the telecommunications industry and technological change has resulted in an increasingly information-intensive business environment. Regulatory, technological, marketing and competitive trends have substantially expanded Covista's opportunities in the converging voice and data communications services markets. For example, technological advances, including rapid growth of the Internet, the increased use of packet switching technology for voice communications, and the growth of multimedia applications, are expected to result in substantial growth in the high-speed data services market.

This new market opportunity should permit Competitive Local Exchange Carriers ("CLECs") with operating and marketing expertise to offer a full range of telecommunications services, including local and long distance calling, toll-free calling, custom calling features, data services, and Internet access and services. Telecommunications companies with an established base of long distance customers may have an opportunity to sell additional services to such customers.

Covista has observed that RBOCs and the Tier I carriers (carriers with annual revenues in excess of \$5 billion), primarily concentrate their sales and marketing efforts on residential and large business customers. Thus, Covista believes there is a significant market opportunity with respect to small and medium-sized businesses to which customer service may be a significant part of their buying decision. Covista has also entered the residential long distance business which Covista had not previously concentrated its marketing efforts.

Network

Covista's strategy has been to develop a geographic concentration of revenue-producing customers through the sale of telecommunications services in areas where it has installed switching platforms.

Current Network

Switches. Currently, Covista operates an advanced telecommunications network that includes three Alcatel switches, located in New York City, Newark, New Jersey and Philadelphia, Pennsylvania. The Philadelphia switch was acquired from a merger with Capsule Communications (see Subsequent Events). Covista has installed Alcatel DEX 600 switches in Newark and Philadelphia and a Megahub DEX600E switch in New York, which provides interexchange switching capabilities and is currently being used as Covista's international gateway switching platform. Covista is installing three Alcatel DEX 600 switches, one in Minneapolis, one in Dallas and one in Chattanooga which are scheduled to be operational in FY 2003.

In July 2001, Covista announced that it had acquired long-term access to nationwide network facilities comprising 2,822,400,000 channel miles of telecommunications capacity measured by length of voice-grade circuits.

During Fiscal 2002, Covista billed approximately 1.08 billion minutes, with approximately 85% of its minutes over its own switches. Covista believes that increasing the traffic carried on its own network would improve operating margins.

International. Covista is interconnected with a number of United States and foreign wholesale international carriers through its New York switch. The purpose of connecting to a variety of carriers is to provide state-of-the-art, lowest-cost routing and network reliability. These interconnected international carriers are also a source of wholesale international traffic and revenue.

Internet. Currently, Covista owns and operates an IP (Internet Protocol) Network that includes two Cisco 7500 routers, located in New York City. Covista also owns and operates an Ascend TNT remote access server (RAS) located in New York. The RAS provides dial-up Internet access services. Through associations with providers of wholesale Digital Subscriber Lines ("DSL"), Covista offers DSL internet service in the Philadelphia, New York, New Jersey and Connecticut markets. Covista also offers internet services over dedicated DS0, DS1 and DS3 digital transmission circuits.

Other Features. Covista is interconnected by SS7 out-of-band digital signaling throughout its network. The SS7 signaling system reduces connect time delays, thereby enhancing overall network efficiencies. Additionally, the SS7 technology is designed to permit the anticipated expansion of Covista's Advanced Intelligent Network ("AIN") capabilities throughout its network. Covista's advanced switching platform would enable it to (i) deploy features and functions quickly throughout its entire network, (ii) expand switch capacity in a cost-effective manner, and (iii) lower maintenance costs through reduced training and spare parts requirements.

Security and Reliability. Covista has a Network Operating Center (NOC) in Northern New Jersey, which monitors and controls Covista's network and coordinates its various services from a central location, increasing the security, reliability and efficiency of Covista's operations. Centralized electronic monitoring and control of Covista's network allows Covista to avoid duplication of this function in each switch site. The NOC also helps reduce Covista's per-customer monitoring and customer service costs. In addition, Covista's network employs an "authorized access" architecture. Unlike many telecommunications companies, which allow universal access to their network, Covista utilizes an automatic number identification security screening architecture which ensures only the Automatic Number Identification (ANIs) of those users who have subscribed to Covista's services and have satisfied Covista's credit and provisioning criteria have access to the network. Covista believes that this architecture provides Covista the ability to better control bad debt and fraud in a manner which is invisible and nonintrusive to the customer. This architecture also allows Covista to better manage network capacity, as unauthorized and unplanned users cannot access the network. Covista plans to relocate the NOC to the Corporate Headquarters in Chattanooga TN in Fiscal Year 2003.

PRINCIPAL PRODUCTS AND SERVICES

Product and Service Offerings

Covista offers retail telecommunications services primarily to small and medium-sized businesses and residential long distance users. Covista's retail service offerings currently include long distance and toll-free services (both with and without an AIN), multiple access options, calling card, data, Internet access, DSL, e-mail,

Current Services

Retail Services. Covista provides telecommunications services to over 10,000 commercial customers, primarily small and medium-sized businesses located in the Northeastern region of the United States. Covista sells retail services through its independent marketing representatives. Retail commercial communications services accounted for approximately 50% of Covista's Fiscal 2002 revenues, and produced revenues of approximately \$47,423,000 in Fiscal 2002 and \$53,487,000 in Fiscal 2001. Retail revenues fell in fiscal 2002 due to continued downward pricing pressure and reductions in volume, which Covista attributes to ever increasing competition within the industry. In addition, the attack on the World Trade Center on September 11, 2001 had a direct negative impact on the retail sales of Covista due to damage to the switch located in New York City. While Covista believes that it may return to its previous volume levels, as the worldwide demand for communications services increases, it also believes that the intense competition for those minutes from other telecommunications providers will continue to force down prices. This continued downward effect on price may adversely affect operations.

Covista's retail services include the following:

- **Long Distance:** Covista offers a full range of switched and dedicated domestic and international long distance services, including "1+" outbound service in all 50 states along with global termination to over 200 countries. Long distance services include intra-LATA (Local Access Terminating Area), inter-LATA, and worldwide international services. Long distance features include both verified and non-verified accounting codes, station-to-station calling, third-party calling, directory assistance and operator-assisted calling.
- **Toll-free Services:** Covista offers a full range of switched and dedicated domestic toll-free services, including toll-free origination in all 50 states, international toll-free origination from over 30 countries, and toll-free directory assistance. AIN enhanced toll-free services include the following features: Command Routing, Dialed Number Identification Service Area Code/Exchange Routing, Real Time Automatic Number Identification Delivery, Day-of-Year Routing, Day-of-Week Routing, Time-of-Day Routing, Percentage Allocation Routing, PIN protected 800 services, integrated voice response services and store locator services.
- **Access Options:** Covista offers its long distance and toll-free customers multiple access options, including dedicated access at DS0, DS1, and DS3 speed(s) and switched access.
- **Calling Card and Services:** Covista offers nationwide switched access, customized calling card services. Customers have the option of calling cards, which are personalized, branded or generic.
- **Internet:** Covista currently offers high-quality, dedicated DSL and dial-up Internet access, e-mail, IP addressing and Domain Name Services.
- **Data Services:** Covista offers advanced data transmission services, including private line and Frame Relay services. Data services have multiple access options, including dedicated access at DS0, DS1, and DS3 speed(s) and switched access.
- **Customer Management Control Features:** All of Covista's customers have the option of customized management reporting features, including interstate/intrastate area code summaries, international destination matrix, daily usage summaries, time of day summaries, duration distribution matrix, exception reporting of long duration calls, and incomplete and blocked call reporting.

Wholesale Services. Covista offers the following wholesale services: domestic and international termination, switch ports, colocation facilities and transport services to a broad spectrum of domestic and international carriers. Covista offers international wholesale termination and transport services primarily to domestic and international telecommunications carriers. Once Covista interconnects with a carrier customer, the carrier may utilize Covista on an as-needed basis, depending upon the pricing offered by Covista and its competitors as well as capacity. Covista has been tested and approved as an authorized carrier for, and included in the routing tables of all of its long distance and international carrier customers. Covista's wholesale results were severely affected by the September 11 terrorist attack. The Company suffered the temporary loss of its New York City switch, which is situated in the immediate vicinity of the World Trade Center. As a result, Covista incurred a significant reduction in wholesale revenues. The impact of the revenue loss, combined with additional expenses, was in excess of approximately \$5,000,000. Covista has filed an insurance claim for losses and expenses associated with the events of September 11, and received an initial \$1,000,000 in the FY 2002. The total claim and final settlement cannot be determined at this time. Wholesale revenues were approximately \$47,889,000 and \$79,743,000 during

CUSTOMER BASE

Telecommunications Services Market

Overview of the United States Market. The United States market for telecommunications services can be divided into four basic service sectors: long distance, local exchange, Internet access and international.

Long Distance Services. A long distance telephone call can be envisioned as consisting of three segments. Starting with the originating customer, the call travels along a local exchange network to a long distance carrier's point of presence ("POP"). At the POP, the call is combined with other calls and sent along a long distance network to a POP on the long distance carrier's network near where the call will terminate. The call is then sent from this POP along a local network to the terminating customer. Long distance carriers provide only the connection between the two local networks; and, unless the long distance carrier is a local service provider, pay access charges to LECs for originating and terminating calls.

Local Exchange Services. A local call is one that does not require the services of a long distance carrier. In general, the local exchange carrier connects end-user customers within a locally defined area known as a Local Access and Transport Area or "LATA" and also provides the local access (ingress and egress) of most long distance calls.

Internet Service. Internet services are generally provided in at least two distinct segments. A local network connection is required from the Internet Service Provider ("ISP") customer to the ISP's local facilities. For large, communication-intensive users and for content providers, the connections are typically unswitched, dedicated connections provided by LECs, Intelligent Call Processing ("ICP"), or other providers, either as independent service providers or, in some cases, by a carrier that is both a Competitive Local Exchange Carrier (CLEC) and an Internet Service Provider (ISP). For residential and small and medium-sized business users, these connections are generally Public Switched Telephone Network ("PSTN") connections obtained on a dial-up access basis as a local exchange telephone call. Once a local connection is made to the ISP's local facilities, information can be transmitted and obtained over a packet-switched IP data network, which may consist of segments provided by many interconnected networks operated by a number of ISPs. The collection of interconnected networks makes up the Internet. A key feature of Internet architecture and packet switching is that a single dedicated channel between communication points is never established which distinguishes Internet-based services from the PSTN.

International Service. A typical international long distance call originates on a local exchange network or private line and is carried to the international gateway switch of a long distance carrier. The call is then transported along a fiber optic cable or a satellite connection to an international gateway switch in the terminating country and, finally, to another local exchange network or private line where the call is terminated. Generally, only a small number of carriers are licensed by a foreign country for international long distance and, in many countries, only the Postal Telephone & Telegraph administration ("PTT") is licensed or authorized to provide international long distance service. Any carrier which desires to transport switched calls to or from a particular country, in addition to obtaining a license or other permission (if required), must enter into operating agreements or other arrangements with the PTT or another international carrier in that country or lease capacity from a carrier which already has such arrangements.

Market Opportunities

As a result of the 1996 Act and other Federal, state, and International initiatives, numerous telecommunications markets have been opened to competition. In addition, the increasing globalization of the world economy, along with increased reliance upon data transmission and Internet access, has expanded traditional telecommunications markets. Covista has targeted its services principally to small and medium-sized businesses based upon its belief that such customers are not aggressively targeted by Tier 1 providers and are underserved with respect to customer service and support. Also, Covista, through a recently introduced product offering, is targeting residential long distance users with competitive rates for domestic and international long distance usage.

COMPETITION

Overview

Covista operates in a highly competitive industry and estimates that it has no greater than a 1% share of the market in which it operates. Covista expects that competition will continue to intensify in the future due to regulatory changes, including the continued implementation of the 1996 Act, and further increases in the size, resources, and number of market participants. In each of its markets, Covista will face competition from larger, better capitalized Tier I and Tier II providers and ILECs and CLECs. While new business opportunities may be made available to Covista through the 1996 Act and other federal and state regulatory initiatives, regulators are likely to provide ILECs with an increased degree of flexibility with regard to pricing of their services as competition increases.

Competition for Covista's products and services is based upon price, quality, the ability to bundle services, name recognition, network reliability, service features, billing services, perceived quality and responsiveness to customers' needs. While Covista believes that it currently has certain advantages relating to price, quality, customer service and responsiveness to customer needs; there is no assurance that Covista will be able to maintain these advantages or obtain additional advantages. A continuing trend toward business combinations and alliances in the telecommunications industry may create significant new competitors to Covista. Many of Covista's existing and potential competitors have financial, technical, and other resources significantly greater than those of Covista. In addition, in December, 1997, the FCC issued rules to implement the provisions of the World Trade Organization Agreement on Basic Telecommunications, which was drafted to liberalize restrictions on foreign ownership of domestic telecommunications companies and to allow foreign telecommunications companies to enter domestic markets. The new FCC rules went into effect in February, 1998 and are expected to make it substantially easier for many non-United States telecommunications companies to enter the United States market, thus further increasing the number of competitors. The new rules will also give non-United States individuals and corporations greater ability to invest in United States telecommunications companies, thus increasing the financial and technical resources potentially available to existing and potential competitors as well as Covista.

Long Distance Market

The long distance telecommunications industry is highly competitive and affected by the introduction of new services by, and the market activities of, major industry participants. Covista competes against various national and regional long distance carriers, including both facilities-based providers and switchless resellers offering essentially the same services as Covista. In addition, significant competition is expected to be provided by ILECs including RBOCs. Recently, Verizon, the RBOC for Covista's region, has been authorized to provide long distance services in certain states. Covista's success will depend upon its ability to provide high-quality services at prices competitive with, or lower than, those charged by its competitors. In addition, a high level of customer attrition or "churn" has characterized the long distance industry. Such attrition is attributable to a variety of factors, including initiatives of competitors as they engage in advertising campaigns, marketing programs, and provide cash payments or other incentives. End users are often not obligated to purchase any minimum usage amount and can discontinue service without penalty at any time. Covista's revenue has been, and is expected to continue to be, affected by churn.

Tier I providers and other carriers have implemented new price plans aimed at residential customers with significantly simplified rate structures, which may have the impact of lowering overall long distance prices. There can also be no assurance that long distance carriers will not make similar offerings available to the small to medium-sized businesses, which Covista primarily serves. While Covista believes that small and medium-sized business customers are not aggressively targeted by large long distance providers, such as the Tier I providers, there can be no assurance that Covista's customers and potential customers will not be targeted by these or other providers in the future. Additional pricing pressure may come from IP transport, which is a developing use of packet-switched technology which can transmit voice communications at a cost which may be below that of traditional circuit-switched long distance service. While IP transport is not yet available in all areas, its use requires the dialing of additional digits. While the service has generally produced sound quality inferior to traditional long distance service, it could eventually be perceived as a substitute for traditional long distance service. This, in turn, could put further pricing pressure on long distance rates. Any reduction in long distance prices may have a material adverse effect on Covista's business, financial condition and results of operations.

Some of Covista's principal competitors are also major suppliers of services to Covista. Covista both links its switching equipment with transmission facilities and services purchased or leased from these suppliers, and also resells services obtained from these suppliers. There can be no assurance that these suppliers will continue to offer services to Covista at competitive rates or on attractive terms, if at all, and any failure to do so could have a material adverse effect on Covista.

Seasonal Nature of Business

Company's business is not seasonal.

Patents, Trademarks, Licenses, etc.

Company does not hold any material patents, franchises or concessions.

GOVERNMENT REGULATIONS

Overview

Covista's services are subject to regulation by federal, state and local governmental agencies. The FCC exercises jurisdiction over all facilities and services of telecommunications common carriers to the extent those facilities are used to provide, originate or terminate interstate or international communications. State regulatory agencies retain jurisdiction over carriers' facilities and services to the extent they are used to originate or terminate intrastate communications. Municipalities and other local government agencies may require carriers to obtain licenses or franchises regulating use of public rights-of-way necessary to install and operate their networks. The networks are also subject to numerous local regulations such as building codes, franchises, and rights of way licensing requirements. Many of the regulations issued by these regulatory bodies may be subject to judicial review, the results of which Covista is unable to predict.

Federal Regulations - The 1996 Act

Statutory Requirements. The 1996 Act requires all LECs (including ILECs and CLECs, (i) not to prohibit or unduly restrict resale of their services; (ii) to provide local number portability; (iii) to provide dialing parity and nondiscriminatory access to telephone numbers, operator services, directory assistance, and directory listings; (iv) to afford access to poles, ducts, conduits, and rights-of-way; and (v) to establish reciprocal compensation arrangements for the transport and termination of local telecommunications traffic. It also requires ILECs to negotiate local interconnection agreements in good faith and to provide interconnection (a) for the transmission and routing of telephone exchange service and exchange access, (b) at any technically feasible point within the ILEC's network, (c) which is at least equal in quality to that provided by the ILEC to itself, its affiliates, or any other party to which the ILEC provides interconnection, and (d) at rates and terms and conditions which are just, reasonable and nondiscriminatory. ILECs also are required under the 1996 Act to provide nondiscriminatory access to network elements on an unbundled basis at any technically feasible point, to offer their local telephone services for resale at wholesale rates, and to facilitate collocation of equipment necessary for competitors to interconnect with or access Unbundled Network Elements ("UNEs").

The 1996 Act also eliminates the existing AT&T antitrust consent decree, which barred the provision of long distance services and manufacturing by the RBOCs. In addition, the 1996 Act requires RBOCs to comply with certain safeguards and offer interconnection which satisfies a prescribed 14-point competitive checklist before. RBOCs are permitted to provide in-region inter-LATA services. These safeguards are designed to ensure that the RBOCs competitors have access to local exchange and exchange access services on nondiscriminatory terms and that the subscribers of regulated non-competitive RBOC services do not subsidize their provision of competitive services. The safeguards also are intended to promote competition by preventing RBOCs from using their market power in local exchange services in order to obtain an anti-competitive advantage in the provision of other services. RBOCs have the ability to provide out-of-region long-distance services and, if they obtain authorization and under prescribed circumstances, may provide additional in-region long-distance services. In December 1999, the FCC granted Bell Atlantic's (now Verizon) application to offer in-region long distance services in New York, marking the first time since the breakup of AT&T that an RBOC has been able to provide its customers with both local and long distance services.

The 1996 Act also granted important regulatory relief to industry segments which compete with CLECs. ILECs were given substantial new pricing flexibility. RBOCs also were granted new rights to provide certain cable TV services. Inter Exchange Carriers ("IXCs") were permitted to construct their own local facilities and/or resell local services. State laws may no longer require CATVs to obtain a franchise before offering telecommunications services nor permit CATVs' franchise fees to be based on their telecommunications revenue. In addition, under the 1996 Communications Act, all utility holding companies are permitted to diversify into telecommunications services through separate subsidiaries.

FCC Rules Implementing the Local Competition Provisions of the 1996 Act. In August 1996, the FCC released a First Report and Order, a Second Report and Order and a Memorandum Opinion and Order (combined, the "Interconnection Orders") which established a framework of minimum, national rules enabling state Public Utility Commissions ("PUCs") and Public Service Commissions ("PSCs"), and the FCC to begin implementing many of

make available to competitors upon request and a methodology for states to use in establishing rates for interconnection and the purchase of UNEs. The FCC also adopted a methodology for States to use when applying the 1996 Act "avoided cost standard" for setting wholesale prices with respect to retail services.

The U.S. Supreme Court affirmed the authority of the FCC to establish rules governing interconnection. Covista believes that additional disputes regarding interconnection issues and other related FCC actions are likely. In particular, the Supreme Court remanded to the FCC issues regarding what UNEs the FCC will require ILECs to make available to competitors. In November 1999, the FCC released a decision modifying the list of UNEs which all ILECs must offer to other carriers. The Eighth Circuit decisions and their reversal by the Supreme Court continue to cause uncertainty about the rules governing the pricing, terms and conditions of interconnection agreements. The Supreme Court's ruling and further proceedings on remand (either at the Eighth Circuit or the FCC) may affect the scope of the PUCs' and PSCs' authority to conduct arbitration proceedings or to implement or enforce interconnection agreements. The ruling could also result in new or additional rules being promulgated by the FCC. Given the ongoing uncertainty surrounding the effect of the Eighth Circuit decisions and the decision of the Supreme Court reversing them, Covista may not be able to obtain or enforce interconnection terms acceptable to it or that are consistent with its business plans.

Other Federal Regulations

In general, the FCC has a policy of encouraging the entry of new competitors in the telecommunications industry and preventing anti-competitive practices. Therefore, the FCC has established different levels of regulation for dominant carriers and non-dominant carriers. For purposes of domestic common carrier telecommunications regulation, large ILECs are currently considered dominant carriers, while CLECs are considered non-dominant carriers.

- **Tariffs.** As a non-dominant carrier, Covista may install and operate facilities for the transmission of domestic interstate communications without prior FCC authorization. Services of non-dominant carriers have been subject to relatively limited regulation by the FCC, primarily consisting of the filing of tariffs and periodic reports. However, non-dominant carriers like Covista must offer interstate services on a nondiscriminatory basis, at just and reasonable rates, and remain subject to FCC complaint procedures. With the exception of informational tariffs for operator-assisted services and tariffs for interexchange casual calling services, the FCC has ruled that IXCs must cancel their tariffs for domestic interstate interexchange services. Tariffs continue to be required for international services. Pursuant to these FCC requirements, Covista has filed and maintains tariffs for its interstate services with the FCC. All of the interstate access and retail "basis" services (as defined by the FCC) provided by Covista are described therein. "Enhanced" services (as defined by the FCC) need not be tariffed. Covista believes that its proposed enhanced voice and Internet services are "enhanced" services which need not be tariffed. However, the FCC is reexamining the "enhanced" definition as it relates to IP transport and Covista cannot predict whether the FCC will change the classification of such services.
- **International Services.** Non-dominant carriers such as Covista are required to obtain FCC authorization pursuant to Section 214 of the Communications Act and file tariffs before providing international communication services. Covista has obtained authority from the FCC to engage in business as a resale and facilities-based international carrier to provide voice and data communications services between United States and all foreign points.
- **ILEC Price Cap Regulation Reform.** In 1991, the FCC replaced traditional rate of return regulation for large ILECs with price cap regulation. Under price caps, ILECs can raise prices for certain services by only a small percentage each year. In addition, there are constraints on the pricing of ILEC services which are competitive with those of CLECs. In September 1995, the FCC proposed a three-stage plan which would substantially reduce ILEC price cap regulation as local markets become increasingly competitive and, ultimately, would result in granting ILECs nondominant status. Adoption of the FCC's proposal to reduce significantly its regulation of ILEC pricing would significantly enhance the ability of ILECs to compete against Covista and could have a material adverse effect on Covista. The FCC released an order in December 1996 that adopted certain of these proposals, including the elimination of the lower service band index limits on price reductions within the access service category. The FCC's December 1996 order also eased the requirements necessary for the introduction of new services by ILECs. In May 1997, the FCC took further action updating and reforming its price cap plan for the ILECs. Among other things, the changes require price cap ILECs to reduce their price cap indices by 6.5 percent annually, less an adjustment for inflation. The FCC also eliminated rules that require ILECs earning more than certain specified rates of return to "share" portions of the excess with their access customers during the next year in the form of lower access rates. In August, 1999, the FCC again took action designed to grant greater flexibility to price cap ILECs. These reforms should facilitate the removal of services from price

deaveraging of rates for services in the trunking basket, and removal, upon implementation of toll dialing parity, of certain interstate interexchange services from price cap regulation. These actions could have a significant impact on the interstate access prices charged by the ILECs with which Covista expects to compete.

- **Access Charges.** Over the past several years, the FCC has granted ILECs significant flexibility in their pricing of interstate special and switched access services. Under this pricing scheme, ILECs may establish pricing zones based on access traffic density and charge different prices for each zone. Covista anticipates that this pricing flexibility should result in ILECs lowering their prices in high traffic density areas, the probable area of competition with Covista. Covista also anticipates that the FCC will grant ILECs increasing pricing flexibility as the number of interconnections and competitors increases. In May, 1997, the FCC took action to reform the current interstate access charge system. The FCC adopted an order which makes various reforms to existing rate structures for interstate access designed to move access charges, over time, to more economically efficient rate levels and structures. The FCC recently granted ILECs additional pricing flexibility. As such, the carriers may offer volume discounts which may benefit larger long distance carriers.

The FCC has also implemented changes in interstate access rules that result in restructuring of the access charge system and changes in access charge rate levels. As of January 1998, access charges incurred by Covista are being passed on to end users; In May 1999, the U.S. Court of Appeals (D.C. Circuit) sent the access rate formula back to the FCC for further explanation regarding how certain factors were calculated. These and related actions may change access rates. If the formula is upheld, and access rates are reduced, the result will be a lower cost of providing long distance service, especially to business customers. The impact of these new changes will not be known until they are fully implemented over the next several years. In a related proceeding, the FCC has adopted changes to the methodology by which access has been used in part to subsidize universal telephone service and other public policy goals. Telecommunications providers like Covista pay fees calculated as a percentage of revenue to support these goals. The full implications of these changes remains uncertain and subject to change.

- **PICC.** As part of Access Reform mandated in the Telecommunications Act of 1996, beginning in 1998, local phone companies were permitted to assess the Pre-subscribed Interexchange Carrier Charge, also known as "PICC." The "PICC" is a monthly per line cost charged by the local telephone company to every long distance carrier for each customer phone line that is pre-subscribed to that carrier. PICC charges are billed to the end users.
- **Universal Service Reform.** In May, 1997, the FCC released an order which reforms the current system of interstate universal service support and implements the universal service provisions of the 1996 Act. The FCC established a set of policies and rules designed to ensure that low-income consumers and consumers who live in rural, insular and high-cost areas receive a defined set of local telecommunications services at affordable rates. This was to be accomplished in part through expansion of direct consumer subsidy programs and in part by ensuring that rural, small and high-cost ILECs continue to receive universal service subsidy support. The FCC also created new programs to subsidize connection of telecommunications networks to eligible schools, libraries and rural health care providers. These programs were to be funded by assessment of eligible revenue of nearly all providers of interstate telecommunications carriers, including Covista.

Covista, like other telecommunications carriers providing interstate telecommunications services, is required to contribute a portion of its end-user telecommunications revenue to fund universal service programs. These contributions became due beginning in 1998 for all providers of interstate telecommunications services. Such contributions were to be assessed based on intrastate, interstate and international end user telecommunications revenue. Contribution factors vary quarterly and carriers, including Covista, are billed each month. In addition, many state regulatory agencies have instituted proceedings to revise state universal fund contribution requirements which will vary from state to state. Recently, the U.S. Court of Appeals for the Fifth Circuit rejected the FCC's effort to base contributions in part on intrastate revenues. The FCC's universal service program may be altered as a result of appeals, agency reconsideration of its actions, or future Congressional legislation.

Pursuant to the Universal Service Order, all carriers are required to submit a Universal Service Fund worksheet. Covista has filed its Universal Service Fund worksheet. The amounts remitted to the Universal Service Fund are billed to Covista's customers. Covista is eligible to qualify as a recipient of universal service support if it elects to provide facilities-based service to areas designated for universal service support and if it complies with federal and state regulatory requirements to be an

In October, 1999 the FCC adopted a new high-cost universal service support mechanism for non-rural carriers. The new mechanism is based on the forward-looking costs of providing supported services as determined by the Commission's cost model. The forward-looking support mechanism provides support to non-rural carriers in those states that have a statewide average forward-looking cost per line greater than the national benchmark, which is set at 135 percent of the national average forward-looking cost per line. The FCC's decisions regarding universal service could have a significant impact on future operations of Covista.

- **Colocation.** In March, 1999, the FCC released its Colocation Order which requires ILECs to permit CLECs to colocate any equipment used for interconnection or access to unbundled network elements even if that equipment includes switching or enhanced service functions. Among other things, the Colocation Order also prohibits ILECs from placing any limits on the use of switching or enhanced features for collocated equipment, and requires ILECs to make cageless colocation available and permit CLECs to construct their own cross-connect facilities.

In March, 2000, the U.S. Court of Appeals for the District of Columbia Circuit vacated limited portions of the Colocation Order, holding certain definitions contained in FCC rules were impermissibly broad. The Court remanded the Colocation Order, in part, for further FCC consideration of these issues.

- **Line Sharing.** In November, 1999, the FCC adopted a new order requiring ILECs to provide line sharing, which will allow CLECs to offer data services over the same line the consumer uses for voice services, without the CLECs being required to offer the voice services. State commissions have been authorized to establish the prices to the CLECs for such services. The decision has been appealed.

State Regulation

Some states in which Covista operates are considering legislation which could impede efforts by new entrants in the local services market to compete effectively with ILECs. However, Covista does not have any intention to pursue the local services market.

Compliance with Environmental Provisions

Company believes that it complies in all material respects with current pertinent federal, state, and local provisions relating to the protection of the environment and does not believe that continued compliance would require any material capital expenditure.

Subsequent Events

A joint proxy statement/prospectus dated January 9, 2002 and mailed to stockholders on or about January 11, 2002 detailed a merger agreement between Covista and Capsule Communications, Inc. which had been approved by the Covista and Capsule boards of directors. Capsule is a telecommunications carrier providing local and long-distance telephone communications services primarily to small- and medium-size business customers as well as residential customers utilizing its own equipment. Capsule provides inbound long-distance services and local resale services as well as other telecommunications services including calling cards, cellular, paging, Internet service, dedicated access, data services, and carrier termination services. Capsule uses its own switch located in Philadelphia to originate, transport and terminate calls for customers generally located in the Mid-Atlantic region and in California. For calls originating or terminating outside its own network, Capsule resells services provided by other long-distance companies. Capsule is the successor corporation to US Wats, Inc. During the scheduled annual meeting of stockholders on February 8, 2002, the merger was approved by the requisite vote of stockholders of Covista and Capsule. The merger was consummated on February 8, 2002.

On February 12, 2002, Covista announced a reduction in force of 26% of its New York/New Jersey workforce related to a reduction in revenue due to the decline in the wholesale market and the World Trade Center attack of September 11, 2001 and the move of operations to Tennessee.

PERSONNEL

As of the April 15, 2002, Covista and its subsidiaries employed 243 full-time and part-time employees in its long distance telecommunication business, of whom 20 were engaged in sales activities, 82 in customer service and support, 52 in technical and field services, 22 in data processing, and 67 in general and administrative activities. Covista also utilizes the services of approximately 950 independent sales agents. Covista considers its relations with its employees to be satisfactory.

ITEM 2.**Properties**

On November 15, 1993, and December 28, 1993, Covista entered into leases for an aggregate of approximately 3,500 square feet of space at 744 Broad Street, Newark, New Jersey, for its switching equipment. The lease ran from January 1, 1994 through December 31, 1998, with an option to renew the lease through August 31, 2002, which has been exercised. The annual rental of \$63,200 also requires the tenant to pay a proportionate share of any increase in the "Consumer Price Index", U. S. City Average over the base year. Covista does not have plans to renew the lease and the switching components are to be relocated to another site.

On February 22, 1994, Covista entered into a lease, subsequently modified on April 15, 1994, for approximately 17,700 square feet of space at 150 Clove Road, Little Falls, New Jersey to be used as sales, executive and administrative offices. The lease provided for a rent holiday until July, 1995, after which the annual rental would be approximately \$360,000. The lease is for five years and ten months and has been amended by a second lease modification agreement dated February 9, 1995 whereby Covista leased approximately 6,700 additional square feet of space at the same location at an additional annual rental of \$121,707 for the first four years and \$138,154 for the next year and two months. The modified agreement also extended the term of the existing lease for an additional two years to August 14, 2002 at a then annual rental of \$563,000. The lease requires the payment of the tenant's proportionate share of operating expenses and real estate tax increases over the base year. There are two five year renewal options. There are no plans to exercise renewal options.

On January 30, 1997, Covista entered into a third modification of its lease for approximately 16,640 square feet of additional office space at its existing facility at 150 Clove Road, Little Falls, New Jersey. The annual rental on the additional space was \$357,760 per annum from July 1, 1997 through February 14, 1998, is \$366,800 per annum from February 15, 1998 through August 14, 2000, and will be \$384,820 per annum from August 15, 2000 through August 14, 2002. In addition, Covista is obligated for its proportionate share of increases in real estate taxes and operating expenses over the base year. There are two five year renewal options, requiring nine months' prior notice. There are no plans to exercise the renewal options. Covista plans to move the existing office staff to a smaller location in the general area of Little Falls, NJ and certain operational units of Covista to Chattanooga, Tennessee.

On November 1, 1996, Covista entered into a lease for approximately 8,300 square feet of space at 40 Rector Street, New York City, New York, for use as a second switching facility. The term of the lease is for fifteen years and ten months from the date of commencement, which was March 1, 1997. Rental payments are \$163,918 per annum for the first five years after commencement, \$166,480 per annum for the next five years, and \$183,128 per annum for the remaining five years and ten months. The lease requires the payment of the tenant's proportional share of increased operating expenses and real estate taxes over the base year.

On November 8, 1996, a subsidiary of Covista entered into a lease for approximately 2,300 square feet of office space in New York City, New York at an annual rental of approximately \$77,781. The lease commenced February 1, 1997 and is for sixty three (63) months. The lease requires the payment of the tenant's proportionate share of increased operating expenses and real estate taxes over the base year.

On February 6, 1998, Covista entered into a lease for approximately 5,000 square feet of space at 28 W. Flagler Street, Miami, Florida. The term of the lease is 15 years, commencing February 1, 1998. The annual rental is approximately \$116,160, with an annual adjustment based on the Revised Urban Wage Earners and Clerical Workers Index, capped at a maximum of 3% increase over the prior year's rental payment. In addition, Covista is liable for its proportionate share of increases in real estate taxes and operating expenses over the base year. Covista sublet this space on January 1, 2000 for the balance of its term, to another tenant at an annual rate of approximately \$116,160, subject to adjustments. The tenant has defaulted on the sublease and Covista is currently considering utilizing the space.

On September 1, 1998, Covista entered into a five year lease, commencing September 1, 1998 for 3,008 square feet of space at 500 Cypress Creek Road, Fort Lauderdale, Florida. Rental payments were \$48,128 per annum from September 1, 1998 to August 31, 1999, \$50,554 from September 1, 1999 to August 31, 2000, \$53,061 from September 1, 2000 to August 31, 2001, \$55,708 from September 1, 2001 to August 31, 2002 and \$58,506 from September 1, 2002 to August 31, 2003. The lease requires the payment of the tenant's proportionate share of increased operating expenses and real estate taxes over the base year. In January, 2000 Covista entered into a modification of the lease whereby the space was reduced to 1,200 square feet. Rental payments have been modified to be \$30,300 from February 15, 2000 to February 14, 2001, \$33,033 from February 15, 2001 to February 14, 2002, \$34,587 from February 15, 2002 to February 14, 2003 and \$32,538 from February 15, 2003 to February 14, 2004. Covista has sublet this space to another tenant.

October 1, 1999 to August 31, 2000, and are \$64,818 from September 1, 2000 to August 31, 2001 and \$67,422 from September 1, 2001 to August 31, 2002. The lease requires the payment of the tenant's proportionate share of increased operating expenses and real estate taxes over the base year. Covista has sublet this space to another tenant.

On November 17, 1999, Covista entered into a three year lease, commencing November 17, 1999 for 2,186 square feet of space at One Landmark Square, Stamford, Connecticut. Rental payments were \$50,278 per annum from November 17, 1999 to November 16, 2000, are \$51,371 from November 17, 2000 to November 16, 2001, and \$51,556 from November 17, 2001 to November 16, 2002. There is an option to renew for three years, upon nine months' prior written notice. The lease requires the payment of the tenant's proportionate share of increased operating expenses and real estate taxes over the base year. Covista has sublet this space to another tenant.

On October 11, 1999, Covista entered into a three year lease, commencing October 11, 1999 leasing 1,926 square feet of space at 1810 Chapel Avenue West, Cherry Hill, New Jersey. Rental payments are \$38,520 per annum from October 11, 1999 to October 31, 2002. There is an option to renew for three years, upon nine months' prior written notice. The lease requires the payment of the tenant's proportionate share of increased operating expenses and real estate taxes over the base year. Covista has sublet this space to another tenant.

Covista has entered into a lease agreement for approximately 28,000 square feet of office space in Chattanooga, Tennessee, with Henry G. Luken III Chairman of the Board and a principal shareholder of Covista. The term of the lease is for five years beginning September 1, 2001. The lease provides for annual rent of \$86,400 from September 1, 2001 to August 30, 2002; \$115,200 from September 1, 2002 to August 30, 2003; \$144,000 from September 1, 2003 to August 30, 2004, with the last two years to be \$144,000 annually adjusted for the Consumer Price Index. Covista believes that such premises are leased on terms not less favorable than an arm's length transaction.

ITEM 3. Pending Legal Proceedings

There are no pending legal proceedings that could be expected to have a material adverse effect on Covista.

ITEM 4. Submission of Matters to a Vote of Security Holders

A joint proxy statement/prospectus dated January 9, 2002 and mailed to stockholders on or about January 11, 2002 detailed a merger agreement between Covista and Capsule Communications, Inc. which had been approved by the Covista and Capsule boards of directors. During the scheduled annual meeting of stockholders on February 8, 2002, the merger was approved by the requisite vote of stockholders of Covista and Capsule. The merger was consummated on February 8, 2002. Other matters presented to stockholders included election of eight directors of Covista, adoption of the 2001 Equity Incentive Plan, and to ratify the selection of Deloitte & Touche LLP as Independent auditors of Covista for the fiscal year ending January 31, 2002.

PART II

ITEM 5. Market for Company's Common Stock and Related Security Holder Matters

Common Stock

Covista's authorized capital stock consists solely of 50,000,000 shares of Common Stock. Holders of Covista's Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Board of Directors in its discretion from funds legally available therefor. Each holder of Common Stock is entitled to one vote for each share held. There is no right to cumulative voting. Upon liquidation, dissolution, or winding up of Covista, the holders of Common Stock are entitled to receive a pro rata share of all assets available for distribution to stockholders. The Common Stock has no pre-emptive or other subscription rights, and there are no conversion or redemption rights with respect to such shares.

Effective on July 15, 1998, Covista distributed 4,207,887 shares of Common Stock in connection with a 2-for-1 stock split of all outstanding shares as of June 30, 1998. As of the date of this report, there were 12,636,949 shares of Common Stock issued and outstanding, held by 840 persons, as reported by Covista's transfer agent.

Price Range of the Common Stock

Covista's Common Stock is traded in the over-the-counter market on the NASDAQ National Market System under the Symbol CVST. The following table sets forth, for the quarterly fiscal periods indicated, the high and low closing sales prices for Covista's Common Stock in such market, as reported by the National Association of Securities Dealers, Inc.

<u>FISCAL 2002</u>	<u>HIGH</u>	<u>LOW</u>
February 1, 2001 thru April 30	\$ 6.188	\$ 1.547
May 1 thru July 31	7.25	3.25
August 1 thru October 31	10.25	4.50
November 1 thru January 31, 2002	10.25	5.62
<u>FISCAL 2001</u>	<u>HIGH</u>	<u>LOW</u>
February 1, 2000 thru April 30	15.00	9.1875
May 1 thru July 31	12.375	6.00
August 1 thru October 31	9.50	3.625
November 1 thru January 31, 2001	4.9375	0.625

Covista has not paid or declared any cash dividends during the past two fiscal years and does not anticipate paying any in the foreseeable future.

ITEM 6. Selected Financial Data

(In thousands except per share amounts)

RESULTS OF OPERATIONS:	Year ended January 31,				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net sales	\$ 95,313	\$ 133,230	\$ 139,760	\$ 137,283	\$ 123,286
Net (Loss) earnings	\$ (11,970)	\$ (8,629)	\$ (9,414)	\$ (3,418)	\$ 1,094
Weighted average common shares outstanding (a)					
Basic	10,204	7,324	7,069	6,818	6,213
Diluted	10,204	7,324	7,069	6,818	6,842
(Loss) earnings per common and common equivalent shares					
Basic (Loss) earnings per share	\$ (1.17)	\$ (1.18)	\$ (1.33)	\$ (0.50)	\$ 0.18
Diluted (Loss) earnings per share	\$ (1.17)	\$ (1.18)	\$ (1.33)	\$ (0.50)	\$ 0.16
Cash dividends per common share	None	None	None	None	None
Additions to property & equipment	\$ 5,465	\$ 3,227	\$ 3,019	\$ 4,727	\$ 3,268
Depreciation and amortization	\$ 4,569	\$ 3,578	\$ 2,985	\$ 2,785	\$ 2,028
FINANCIAL POSITION:					
Working Capital	\$ (11,327)	\$ (7,734)	\$ 1,222	\$ 1,261	\$ 7,936
Property and equipment - net	\$ 12,490	\$ 13,021	\$ 13,317	\$ 14,473	\$ 12,406
Total assets	\$ 31,257	\$ 39,097	\$ 45,184	\$ 45,692	\$ 40,245
Long-term debt	\$ 4,400(b)	\$ 382	\$ 997	\$ 1,566	\$ 2,092
Shareholders' Equity	\$ 1,569	\$ 5,777	\$ 14,007	\$ 16,442	\$ 18,598
Common shares outstanding (a)	10,849	7,969	7,944	7,605	6,679

(a) All per share amounts have been restated to reflect the 2 for 1 stock split distributed July 1, 1998.

(b) \$4,400,000 consists of a note from Covistas' Chairman of the Board which is planned to be converted to an equity position (see ITEM 13).

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is presented to assist in assessing the changes in financial condition and performance of Covista for the fiscal years ended January 31, 2000 (Fiscal 2000) and January 31, 2001 (Fiscal 2001) and January 31, 2002 (Fiscal 2002). The following information should be read in conjunction with the financial statements and related notes and other detailed information regarding Covista included elsewhere in this report and should not be construed to imply management's belief that the results, causes or trends presented will necessarily continue in the future. Certain information contained below and elsewhere in this annual report, including information with respect to Covista's plans and strategy for its business, are "forward-looking statements."

Recent Accounting Pronouncements

Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. Covista adopted SFAS 133 effective February 1, 2001. The adoption of SFAS 133 did not have a significant impact on the financial position, results of operation, or cash flows of Covista.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. Covista does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements, beyond the cessation of goodwill amortization on future business combinations. As of January 31, 2002 Covista has no Goodwill recorded on its books.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective February 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires Covista to complete a transitional goodwill impairment test six months from the date of adoption. Covista is currently assessing but has not yet determined the impact of SFAS 142 on its financial position and results of operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations", which is effective for all fiscal years beginning February 1, 2003. SFAS 143 requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. Covista is currently assessing but has not yet determined the impact of SFAS 143 on its financial position and results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long Lived Assets", which is effective February 1, 2002. SFAS 144 replaces the Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long Lived Assets and for Long-Lived Assets to be Disposed Of. SFAS 144 requires that long-lived assets be measured at the lower of the carrying amount or fair value, less cost to sell, whether included in continuing operations or in discontinued operations. Covista is currently assessing but has not yet determined the impact of SFAS 144 on its financial position and results of operations.

RESULTS OF OPERATIONS

FISCAL 2002 AS COMPARED TO FISCAL 2001

Revenues

Net sales of telecommunications services for the fiscal year ended January 31, 2002 were approximately \$95,313,000, a decrease of approximately \$37,917,000 or 28.5% from the approximately \$133,230,000 of net sales in Fiscal 2001. These revenues were comprised of retail sales of approximately \$47,424,000 and wholesale sales of approximately \$47,889,000. Covista billed approximately 1,075,758,000 minutes in Fiscal 2002 as

Net retail sales for Fiscal 2002 were approximately \$47,424,000, a decrease of approximately \$6,063,000, or 11.3% from the approximately \$53,487,000 billed in Fiscal 2001. Retail billed minutes were approximately 618,546,000, an increase of approximately 18,165,000 minutes or 3%, over the retail minutes of approximately 600,381,000 billed in Fiscal 2001. The average price per minute decreased approximately 17.3% as the industry continued to experience decreased price per minute of usage. Covista does not foresee that this trend in pricing will abate in the near future.

Net wholesale (carrier) sales for Fiscal 2002 were approximately \$47,889,000, a decrease of approximately \$31,854,000 or 39.9% from the approximately \$79,743,000 billed in Fiscal 2001. Billed wholesale minutes amounted to approximately 457,211,000, a decrease of approximately 197,844,000 minutes or 30.2% from the billed wholesale minutes of approximately 655,055,000 billed in Fiscal 2001. The sales mix continued to move toward higher priced international traffic from the lower priced domestic traffic. International carrier traffic decreased 162,049,000 minutes or approximately 29.1% to approximately 395,619,000 minutes. Domestic minutes decreased approximately 35,794,000 or approximately 36.8% to approximately 61,592,000 minutes. The average wholesale price per minute fell 16% due to continuing competition in the industry, a trend, which Covista believes, will continue.

Cost of Sales

Cost of sales consists of access fees, line installation expenses, switch expenses, Network Operating Center ("NOC") expenses, network depreciation, transport expenses, and local and long-distance expenses. Cost of sales for Fiscal 2002 was approximately \$76,476,000, a decrease of approximately \$39,583,000 or 34.1% from the approximately \$116,059,000 of cost of sales in Fiscal 2001. Included in cost of sales are direct line costs, usage charges and the direct costs of Covista's switches and NOC. The decrease in cost of sales was primarily due to the decrease in lower margin wholesale volume of approximately \$24,401,000; a decrease in technician salary, wages and fringe benefits of approximately \$46,000; decreased consulting expense of approximately \$174,000 an improvement in rates obtained from vendors of approximately \$15,298,000; other net savings in the NOC and switches of approximately \$123,000; an increase in depreciation expense resulting from upgrades to the switches of approximately \$130,000; an increase in equipment rental resulting from a switch sale/leaseback agreement in the amount of approximately \$329,000; and the effect of the access charge settlement recorded in Fiscal 2001.

Selling, General and Administrative:

Selling, general and administrative (S, G & A) expenses are comprised of selling and marketing costs, and general and administrative costs. S, G & A expenses for Fiscal 2002 increased to approximately \$30,987,000, an increase of approximately \$4,083,000 or 15.2% from the approximate \$26,903,000 in Fiscal 2001. This increase was primarily due to increases in salary, wages and benefits due to the new residential service and call center being established in Tennessee of approximately \$412,000; a \$570,000 severance accrual established for New York/New Jersey staff reductions taking place in fiscal 2003; an increase in marketing cost related to new residential service of approximately \$177,000; and increase in general office expense of approximately \$272,000; an increase in bad debt expense of \$2,758,000 due to the write off of a portion of certain carrier receivables; an increase in depreciation and amortization due to amortization of customer lists (from customer lists acquired from Blink Data Corporation) of approximately \$731,000; and an increase in travel and entertainment of approximately \$98,000. These increases were offset by reductions in commissions due to decreased sales volume of approximately \$497,000; decreases in selling expense of approximately \$90,000; and a decrease in professional fees and consulting of \$252,000.

Stock Compensation Expense

Stock compensation expenses for Fiscal 2002 decreased to approximately \$12,000, a decrease of approximately \$255,000, or 95.5%, from the approximately \$267,000 charged in Fiscal 2001. The decrease is due to a majority of stock grants being fully vested.

Other Income and Expense

Total other income, net for Fiscal 2002 increased approximately \$88,000. The components of other income and expense are interest expense, interest income and other items. Interest income decreased approximately \$8,000; interest expense increased approximately \$137,000; and gains on sales of securities increased approximately \$232,000.

Net Loss

The net loss for Fiscal 2002 of approximately \$11,970,000 represents an increase in net loss of approximately \$3,340,000 over the net loss of approximately \$8,629,000 reported in Fiscal 2001, based on the explanations of changes above.

RESULTS OF OPERATIONS

FISCAL 2001 AS COMPARED TO FISCAL 2000

Revenues

Net sales of telecommunications services and systems for the fiscal year ended January 31, 2001 were approximately \$133,230,000, a decrease of approximately \$6,530,000 or 4.7% from the approximately \$139,760,000 of net sales in Fiscal 2000. These revenues were comprised of retail sales of approximately \$53,487,000 and wholesale sales of approximately \$79,743,000. Covista billed approximately 1,255,437,000 minutes in Fiscal 2001 as compared to approximately 1,242,942,000 minutes in Fiscal 2000, an increase of 12,495,000 minutes or 1.0%.

Net retail sales for Fiscal 2001 were approximately \$53,487,000, a decrease of approximately \$15,536,000, or 22.5% from the approximately \$69,023,000 billed in Fiscal 2000. Retail billed minutes were approximately 600,381,000, a decrease of approximately 80,333,000 minutes or 11.8%, from the retail minutes of approximately 680,714,000 billed in Fiscal 2000. The average price per minute has decreased approximately 13.8% as the industry continues to experience decreased price per minute of usage. Covista does not foresee that this trend in pricing will abate in the near future.

Net wholesale (carrier) sales for Fiscal 2001 were approximately \$79,743,000, an increase of approximately \$9,006,000 or 12.7% over the approximately \$70,737,000 billed in Fiscal 2000. Billed wholesale minutes amounted to approximately 655,055,000, an increase of approximately 92,828,000 minutes or 16.5% over the billed wholesale minutes of approximately 562,227,000 billed in Fiscal 2000. The sales mix continued to move toward higher priced international traffic from the lower priced domestic traffic. International carrier traffic increased 177,976,000 minutes or approximately 46.9% to approximately 557,669,000 minutes. Domestic minutes decreased approximately 85,149,000 or approximately 46.6% to approximately 97,387,000 minutes. The average wholesale price per minute fell 4.1% due to continuing competition in the industry, a trend, which Covista believes, will continue.

Cost of Sales

Cost of sales consists of access fees, line installation expenses, switch expenses, NOC expenses, network depreciation, transport expenses, and local and long-distance expenses. Cost of sales for Fiscal 2001 was approximately \$116,059,000, an increase of approximately \$3,265,000 or 2.9% over the approximately \$112,794,000 of cost of sales in Fiscal 2000. Included in cost of sales are direct line costs, usage charges and the direct costs of Covista's switches and NOC. The increase in cost of sales was primarily due to the increase in lower margin wholesale volume of approximately \$10,319,000; increases in salary, wages and fringe benefits of approximately \$881,000; increased consulting expense of approximately \$178,000, and an increase in depreciation expense resulting from upgrades to the switches of approximately \$239,000. This was offset by the reduced volume of retail traffic amounting to approximately \$5,297,000; an improvement in cost rates obtained from vendors of approximately \$2,924,000 and other net savings in the NOC and switches of approximately \$131,000.

Access Charge Settlement:

In the second quarter of the fiscal year ended January 31, 2001, Covista received a cash payment of \$1,264,483 from certain Bell Companies in settlement of a class action suit, to which Covista was a party, filed in 1992 relating to alleged overcharges by those companies. The settlement concluded the class action with the Bell Companies. Covista's portion of the settlement was not determined until the second quarter of the fiscal year. The cash payment was recorded as a separate line item as a reduction of costs and expenses in the quarter ended July 31, 2000.

Selling, General and Administrative:

Selling, general and administrative (S, G & A) expenses are comprised of selling and marketing costs, and

processing services resulting from bringing the billing system in house of approximately \$165,000; a decrease in salaries, fringe benefits and taxes of approximately \$311,000; a reduction of meals and entertainment expense of approximately \$63,000; a reduction of legal fees of approximately \$185,000; a reduction of selling expense of approximately \$191,000, and other net savings of approximately \$256,000. These decreases were offset by additions to the bad debt provision, due to the failure of certain wholesale accounts, of approximately \$1,272,000; increased spending for general office of approximately \$302,000; an increase in recruiting and training for new sales employees of approximately \$180,000; and an increase in depreciation expense on new ISP equipment of approximately \$332,000.

Restructuring Expense

In Fiscal 2000, approximately \$319,000 of a prior accrual for restructuring expenses was reversed. This amount included an approximately \$97,000 reduction in the severance accrual; a reduction of approximately \$20,000 for fringe benefits and an approximately \$202,000 reduction in the accrual on the Fort Lauderdale lease, due to revisions in the lease. There were no charges to restructuring expense in Fiscal 2001; however, Covista settled, for approximately \$12,000, the balance on the lease in Fort Lauderdale, Florida, which was charged against accrued restructuring costs.

Stock Compensation Expense

Stock compensation expenses for Fiscal 2001 increased to approximately \$267,000, an increase of approximately \$63,000, or 30.9%, from the approximately \$204,000 charged in Fiscal 2000. The increase is due to having fewer cancellations of certain restricted stock grants to employees in the current year over the prior year.

Other Compensation

On September 21, 1999, Covista entered into an agreement with Warren Feldman, the then Chairman of the Board of Directors and a shareholder of Covista. As part of this agreement, a lump sum payment in the then amount of \$900,000 was made to Mr. Feldman in settlement of his employment agreement. Covista paid \$650,000 and Mr. Walt Anderson, a major shareholder, paid \$250,000. Mr. Feldman's Employment Agreement was to have been in effect until December 31, 2001. Covista expensed \$900,000 in Fiscal 2000 with \$250,000 being accounted for as a capital contribution.

Simultaneously, Revision LLC and Mr. Walt Anderson ("Revision/Anderson") and Covista entered into Put Option agreements with Warren Feldman, Sol Feldman ("the Feldmans") and Leon Genet, ("Genet") a director of Covista. These Put Option agreements allowed the Feldmans and Genet the right to sell their shares of Covista to Revision/Anderson at a price of \$16.00 per share and obligated Revision/Anderson to purchase the shares during an exercise period beginning on December 11, 1999 and ending on February 10, 2000. Revision/Anderson purchased the shares under the put option agreements prior to the expiration, with the exception of 100,778 shares still held by the Feldmans. Covista had no obligation to purchase any shares from the Feldmans or Genet. The closing market price of Covista's shares on September 21, 1999, the date of the agreements, was \$12.25, and the total number of shares covered by the agreements was 1,208,137. Using a binomial valuation model with an interest rate of 5% and a volatility rate of 50%, the fair value of the Put Option agreements was determined to be \$4.03 per share or \$4,870,554. Covista accounted for this non-cash transaction as a charge to expense and a credit to paid-in capital during Fiscal 2000.

Other Income and Expense

Total other income and expense for Fiscal 2001 increased approximately \$135,000. The components of other income and expense are interest expense, interest income and other items. Interest income increased approximately \$52,000; interest expense decreased approximately \$42,000; and approximately \$41,000 in insurance claims were received.

Net Loss

The net loss for Fiscal 2001 of approximately \$8,629,000 represents a decrease in net loss of approximately \$785,000 from the net loss of approximately \$9,414,000 reported in Fiscal 2000, based on the explanation of changes above.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

a reduction in investments of approximately \$97,000; a reduction in accounts receivable of approximately \$9,361,000; an increase in prepaid expenses of approximately \$149,000; an increase in allowance for doubtful accounts of approximately \$912,000; and an increase in accrued liabilities of approximately \$1,600,000. Also affecting working capital were an increase in notes receivable of approximately \$500,000 from Capsule Communications Inc.; a reduction in accounts payables of approximately \$8,495,000; a decrease in accrued salaries and wages of approximately \$313,000; and a decrease in current portion of long term debt of \$234,000. The current ratio of 0.5 to 1, decreased from the 0.8 to 1 ratio at the end of Fiscal 2001.

On February 21, 2002, Covista announced that on February 20, 2002, its Board of Directors had approved the private sale of additional Common Stock of up to \$12,500,000. The investment will include a cash infusion of \$4,800,000; contribution of \$3,300,000 of fixed assets for debt or Common Stock and the conversion of all existing long-term debt for debt or Common Stock to Common Stock at the rate of \$5.00 per share, which was the closing price for the Common Stock on the date authorized by the Board. The commitment for funding for the investment and the conversion of the indebtedness is anticipated to come primarily from the current Chairman of Covista's Board or his designee's and is subject to shareholder's approval at the next Annual Meeting, or a special meeting of Shareholders to be convened for such purpose. As of May 14, 2002, \$2,600,000 of cash was received from the Chairman of Covista's Board in exchange for debt. Finally, the company is planning to obtain a line of credit from a bank. If such line of credit is not obtained, the Chairman of the Board has committed to loaning \$2 million to the Company through at least the second quarter of fiscal 2004.

Cash Flow Statement

The cash flow statement of Covista for Fiscal 2002 indicated a decrease in cash and cash equivalents of approximately \$1,313,000. Non-cash adjustments (depreciation, amortization, reserve for bad debt, non-cash compensation expense, and gain on investments,) of approximately \$9,697,000 and net changes in assets and liabilities of approximately \$1,690,000 added back to the net loss of approximately \$11,970,000 resulted in net cash used by operations of approximately \$3,963,000. Cash used in investing activities amounted to approximately \$7,477,000, of which approximately \$5,465,000 were used for the purchase of capital additions and approximately \$56,000 was used for the purchase of additional circuits to build out the network, the proceeds from sale investments of approximately \$116,000, a note from Capsule Communications, a related party, of \$500,000 and payment for prepaid network capacity of \$4,000,000. These additions were partially offset by proceeds from and the sale of fixed assets of approximately \$2,338,000. The cash used in financing activities of approximately \$10,128,000 consisted primarily of the repayment of bank borrowings of approximately \$616,000, offset by cash received from the exercise of stock options of approximately \$43,000, proceeds from the issuance of Common Stock of \$6,300,000, a note payable to a related party of \$4,400,000.

Accounts Receivable

The Company has entered into offset arrangements with certain customers, who are also vendors, allowing for the ability to offset payable balances against the Company's receivable balances.

The retail segment of Covista experience an approximate accounts receivable turnover of 53 days; while the wholesale segment has an accounts receivable turnover of 64 days.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

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

Deferred Line Installation Costs

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

The Company accounts for the impairment of long-lived assets and for long-lived assets to be disposed of by evaluating the carrying value of its long-lived assets in relation to the operating performance and future undiscounted cash flows of the underlying businesses annually and when indications of impairment are present. Long-lived assets to be disposed of, if any, are evaluated in relation to the net realizable value. If impairment is indicated, the amount of the impairment is typically calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on the Company's weighted average cost of capital. If the carrying value of the asset exceeds the fair value of the asset, the difference will be charged to the results of operations in the period that the impairment occurred. Based on the Company's analysis of future undiscounted cash flows which are in excess of the carrying value of its long-lived assets, there does not appear to be an impairment as of January 31, 2002.

CAPITAL EXPENDITURES

Capital expenditures for Fiscal 2002 totaled approximately \$5,465,000, and were financed from funds provided from Covista's working capital, sale and lease back of two switches, and a private sale of equity and a loan. The capital expenditures were used for the addition of the IP network of approximately \$168,000; upgrades to Covista's switches and switch sites of approximately \$4,439,000; software and hardware upgrades to Covista's computer network of approximately \$304,000; and furniture, fixtures and equipment for new sales offices of approximately \$511,000, and other furniture and fixtures of \$43,000.

Capital expenditures for Fiscal 2003 are estimated at approximately \$5,000,000 and are expected to be financed from funds provided from operations, and a cash infusion of \$4,800,000 from a related party of Covista.

Inflation

Since inflation has slowed in recent years, Covista does not believe that its business has been materially affected by the relatively modest rate of price increases in the economy. However, pressures in the industry to reduce prices, which have impacted Covista in the past, are expected to continue. Also the telecommunications industry has recently experienced the failure of several businesses, some of which are Covista's wholesale customer and suppliers. These failures not only have affected Covista's FY 2002 results, but may impact future results. Covista continues to seek improvements in operations and efficiency through capital expenditures. Expenditures to improve the signaling system, information systems and the local area network are expected to result in operating costs savings, which could partially offset any future cost increases.

ENVIRONMENTAL MATTERS

Covista is not a party to any legal proceedings or the subject of any claim regarding environmental matters generally incidental to its business. In the opinion of Management, compliance with the present environmental protection laws should not have a material adverse effect upon the financial condition of Covista.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. Covista's cash and investments exceed long-term debt; therefore, the exposure to interest rate risk relates primarily to the marketable securities held by Covista. Covista only invests in instruments with high credit quality where a secondary market exists. Covista does not hold any derivatives related to its interest rate exposure. Covista also maintains long-term debt at fixed rates. Due to the nature and amounts of Covista's note payable, an immediate 10% change in interest rates would not have a material effect in Covista's results of operations over the next fiscal year. Covista's exposure to adverse changes in foreign exchange rates is also immaterial to the consolidated statements as a whole.

ITEM 8. Financial Statements and Supplementary Data

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

ITEM 10. Directors and Executive Officers of Covista

The directors and officers of Covista are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Henry G. Luken III	40	Chairman of the Board
A. John Leach, Jr.	38	Director, President, Chief Executive Officer
Kevin Alward	35	Chief Operating Officer and Director
Jay J. Miller	68	Director
Nicholas Merrick	38	Director
Walt Anderson	46	Director
Leon Genet	70	Director
Donald Jones	66	Director
Thomas P. Gunning	64	Treasurer, Secretary and Chief Financial Officer

Covista's directors all serve for one year terms and until their successors are elected and qualify. Officers serve at the pleasure of the Board of Directors.

Henry G. Luken, III was elected a Director of Covista in February, 1999, and Chairman of the Board in February, 2001. Currently, he is President of Mont Lake Properties, Inc., a real estate development firm; a director of Equity Broadcasting Corp., a TV network; a director of ACNTV, a home shopping company selling through TV; Managing Agent of Henry IV LLC, an aircraft sales company. A co-founder of Telco Communications Group Inc., he served as Chief Executive Officer and Treasurer from July, 1993 to April, 1996, and Chairman from July, 1993 to October, 1997. Mr. Luken has also served as Chairman of Tel-Labs, Inc., a telecommunications billing firm ("Tel-Labs") since 1991, and as Chairman of Telco Development Group, Inc., a computer systems firm owned by Mr. Luken, since 1987, both of which entities he founded.

Walt Anderson was elected a Director of Covista in February, 1999, and as Chairman of the Board in November, 1999. He stepped down as Chairman in February, 2001. He has been Manager of Revision LLC from June 1998 to the present; President and Chairman of Entree International Ltd. (Financial Consulting Services) from July, 1997 to the present; Chairman of Capsule Communications, Inc. as of April 2001, Chairman of Teleport UK Ltd. (Satellite Communications) from May, 1996 to the present; Chairman of Espirit Telecom Group plc. (Telecom Services) from October, 1992 to November, 1998 and President and Chairman, Mid Atlantic Telecom (Telecom Services), from May, 1984 to December, 1993. Mr. Anderson is also a director of American Technology Labs (Network Equipment) and Aquarius Holdings Ltd. (Water Transport Systems),

Leon Genet has served as a Director since October, 1996. For more than the past five years, he has been a partner in Genet Realty, a commercial and industrial real estate brokerage firm. He serves as a member of the National Commerce and Industry Board for the State of Israel Bonds Organization and is a shareholder, director and officer of LPJ Communications, Inc., which has earned commissions from Covista on the same basis as other independent sales representatives. See "Certain Relationships and Related Transactions".

A. John Leach, Jr. was appointed President and Chief Executive Officer and a Director of Covista on May 18, 2000. He had been Senior Vice President of Sales at BTI Telecomm, Inc., from December, 1999 to May, 2000;

that, Mr. Leach was Vice President of Agent Services at BTI Telecomm, from December, 1989 to June, 1996. Regional Sales Manager of Mobilecomm (a Bell South Company) where he started in sales and rose to a Regional Sales Manager position May, 1985 to December, 1989.

Jay J. Miller, Esq. has served as a Director since 1983. He has been a practicing attorney for more than 35 years in New York. He is Chairman of the Board of AmTrust Pacific Ltd., a New Zealand real estate company. He is also a director of Technology Insurance Company, Inc., a provider of various insurance products to the technology industry, and certain of its affiliates. Mr. Miller has performed legal services on behalf of Covista. See "Certain Relationships and Related Transactions."

Thomas P. Gunning was appointed Vice President, Secretary / Treasurer of Covista in May 1999. He was appointed Chief Financial Officer in September, 1994 and served in that capacity until May of 1999. He was again appointed Chief Financial Officer in May of 2000. He was appointed Secretary of Covista in January of 1995. He has served as Controller of Covista since September, 1992. He is a Certified Public Accountant licensed by the States of New York and New Jersey. From 1989 until joining Covista, Mr. Gunning was the Senior Audit Manager at Rosenberg Salsman & Company, a certified public accounting firm. From 1976 to 1989, he was Chief Financial Officer of Flyfaire, Incorporated, a travel wholesale operator. Prior to such time, Mr. Gunning held various positions in both public and private accounting firms.

Donald Jones recently retired from his position as Senior Vice President for Chapter Services of the American Red Cross, for which he worked since 1991. Prior to joining the Red Cross, Mr. Jones was Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy. Mr. Jones served in the United States Army for over 35 years and retired in 1991 with the permanent rank of Lieutenant General.

Nicholas Merrick currently serves as President of Mt Vernon Investments, LLC, an investment company, which he has served as President since January 2002. Mr. Merrick served as Senior Vice President and Chief Financial Officer of Telergy, Inc., a high-speed fiber optic communications network company, from May, 2000 to July, 2001. Telergy filed for reorganization under the bankruptcy laws in October 2001 and is currently in the process of liquidation. Prior to joining Telergy, Mr. Merrick was Chief Executive Officer of Up2 Technologies, Inc. and Executive Vice President of Excel Communications, each of which is a subsidiary of Teleglobe, Inc. (global communications, e-business services), from 1998 until 2000. From 1996 to 1997, he was Vice President and Chief Financial Officer of Telco Communications Group, Inc., and from 1985 to 1996, he was Vice President of Corporate Finance at the Robinson-Humphrey Company, Inc. and Managing Director of R-H Capital Partners.

Kevin A. Alward was appointed Chief Operating Officer of Covista on March 29, 2001 and was elected a director of Covista on July 17, 2001. He had previously served TotalTel USA as President and Chief Operating Officer from 1994 to 1998, when he left the company to become President of North America for Destia Communications, Inc. (formerly known as Econophone, Inc.) and its successor by merger, Viatel, Inc. In April 2000, he co-founded Blink Data Corp., a telecommunications and data services provider headquartered in northern New Jersey, where he was President and Chief Executive Officer until his return to Covista.

Board of Directors

Covista's Board of Directors currently consists of eight persons, two of whom are members of management and six of whom are non-management directors. During the fiscal year ended January 31, 2002, the Board held two meetings, each of which was attended by 80% of the directors then serving.

Covista's Board of Directors has Audit and Compensation Committees, but does not have a Nominating Committee or a committee performing a similar function. The Audit Committee currently consists of three non-management directors, Messrs. Nicholas Merrick, Donald Jones and Leon Genet. The Committee reviews, analyzes and may make recommendations to the Board of Directors with respect to Covista's financial statements and controls. The Committee has met and intends to meet from time to time with Covista's independent public accountants to monitor their activities. The Compensation Committee consists of Messrs. Henry Luken and Jay J. Miller and is charged with reviewing and recommending the compensation and benefits payable to Covista's senior executives. Mr. Leach is an ex-officio member of both the Compensation and Audit Committees.

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ITEM 11. Executive Compensation

The following table sets forth the compensation which Covista paid during the fiscal years ended January 31, 2002, 2001, and 2000 to its Chief Executive Officer and to each executive officer of Covista or person performing similar functions whose aggregate remuneration exceeded \$100,000, during Covista's fiscal year ended January 31, 2001 (the "Named Executives").

Summary Compensation Table

Name and Principal Position	Fiscal Year Ended January 31	Annual Compensation		Other Annual Compensation (\$)	Compensation Awards Options (1)	All Other Compensation (\$)
		Salary (\$)	Bonus (\$)			
John Leach President and Chief Executive Officer (2)	2002	\$300,000	\$400,000 (3)	\$ 0		\$ 5,250 (4)
	2001	\$210,000	\$ 0	\$ 0		\$ 15,346 (5)
Thomas P. Gunning Vice President, Treasurer and Secretary	2002	\$155,000	\$15,000	\$ 0		\$ 11,085 (6)
	2001	\$147,360	\$ 0	\$ 0		\$ 11,427 (7)
	2000	\$140,000	\$ 0	\$ 0		\$ 11,179 (8)
Kevin Alward Chief Operating Officer	2002	\$235,577	\$104,167	\$ 0		\$ 3,567 (9)

- (1) See Option Grant Table below.
- (2) Mr. Leach joined Covista on May 18, 2000. See part (e) for a discussion of Mr. Leach's employment agreement.
- (3) The amount shown includes \$250,000 in bonus due to Mr. Leach from 05/01/00 to 04/30/01 but not paid until FY 2002.
- (4) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of \$5,250.
- (5) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of \$346 and \$15,000 in reimbursement for certain relocation expenses.
- (6) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of \$4,505; Covista company auto expenses of \$1,780; and Covista's group major medical benefit of \$4,800.
- (7) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of \$4,460, \$2,167 for the use of a Company's vehicle for non-business purposes and \$4,800 for term life insurance premiums.
- (8) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of \$4,200, \$2,179 for the use of a Company's vehicle for non-business purposes and \$4,800 for term life insurance premiums.
- (9) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of \$3,567.

Compensation Pursuant to Plans

In October, 1996, adopted its 1996 Stock Option Plan and in February, 2000, adopted its 1999 Equity Incentive Plan, and in February, 2002 adopted its 2001 Equity Incentive Plan (the "Option Plans"). The Option Plans provide that certain options granted thereunder are intended to qualify as "incentive stock options" within the meaning of Section 422A of the United States Internal Revenue Code, while non-qualified options may also be granted under the Option Plans. Incentive stock options may be granted only to employees of Covista, while non-qualified options may be granted to non-executive directors, consultants and others as well as employees.

The Option Plans may be administered by the Compensation Committee of Covista's Board of Directors. Covista has reserved 600,000 shares of Common Stock under the 1996 Option Plan and 750,000 shares of Common Stock under its 1999 Equity Incentive Plan, and 900,000 under its 2001 Equity Incentive Plan for issuance to employees, officers, directors and consultants of Covista.

No option may be transferred by an optionee other than by will or the laws of descent and distribution, and during the lifetime of an optionee, an option may be exercised only by him. In the event of termination of employment other than by death or disability, the optionee will have one month (subject to extension not to exceed an additional two months) after such termination during which he may exercise his option. Upon termination of employment of an optionee by reason of death or permanent total disability, his option remains exercisable for one year thereafter to the extent it was exercisable on the date of such termination. No similar limitation applies to non-qualified options.

Options under the Option Plans must be granted within 10 years from the effective date of the respective Option Plan. Incentive stock options granted under the Option Plans cannot be exercised later than 10 years from the date of grant. Options granted under the Option Plans permit payment of the exercise price in cash or by delivery to Covista of shares of Common Stock already owned by the optionee having a fair market value equal to the exercise price of the options being exercised, or by a combination of such methods of payment. Therefore, an optionee may be able to tender shares of Common Stock to purchase additional shares of Common Stock and may theoretically exercise all of his stock options with no additional investment other than his original shares.

Any option which expires unexercised or that terminates upon an employee's ceasing to be employed by Covista become available again for issuance under the Option Plans.

For further information related to stock option plans, refer to Item 9 in the Notes to the Consolidated Financial Statements.

OPTION GRANTS IN LAST FISCAL YEAR

<u>Name</u>	<u>Number of Securities Underlying Options/SARs Granted(#)</u>	<u>% of Total Option/SARs Granted to Employees in Fiscal Year</u>	<u>Exercise Price</u>	<u>Expiration Date</u>	<u>Potential Realizable Value At Assumed Rates of Stock Appreciation For Option Term</u>	
					<u>5%</u>	<u>10%</u>
A. John Leach	288,000 (1)	18.5%	\$2.00	Feb 1, 2006	\$124,132	\$267,322
Kevin Alward	250,000	16.1%	\$2.00	Mar 30, 2006	\$107,753	\$232,050
Thomas P. Gunning	25,000	1.3%	\$2.00	Feb 1, 2006	\$ 10,775	\$23,205
Thomas P. Gunning	12,000	3.2%	\$5.65	Feb 1, 2006	\$14,611	\$31,466

(1) Stock option granted under the 1996 Stock Option Plan. Vesting in six equal semi-annual installments, commencing six months from the date of grant.

The following table sets forth information concerning each exercise of a stock option during Covista's fiscal year ended January 31, 2002 by each of the Named Executives, and the number and value of unexercised options granted by Covista held by each of the Named Executives on January 31, 2002

Aggregated Option Exercises in Last Fiscal Year And Fiscal Year-End Option Values

<u>Name</u>	<u>Shares Acquired on Exercise</u>	<u>Value Realized (\$)</u>	<u>Number of Securities Underlying Unexercised Options/SARs at Fiscal Year End Exercisable/Unexercisable</u>	<u>Value of Unexercised In-the Money Options/SARs at Fiscal Year End Exercisable/ Unexercisable</u>
Thomas P. Gunning	16,500	\$111,285	18,500/18,500	\$110,159/\$110,159

Compensation of Directors

For the fiscal year ended January 31, 2002, each director who was not an employee of Covista was entitled to receive a director's fee of \$15,000 per year, and to be reimbursed for out-of-pocket expenses incurred in connection with attendance at meetings. However, Messrs. Anderson and Luken waived the right to receive such compensation.

Employment Contracts, Termination of Employment and Change of Control Arrangements

As Covista's Chief Executive Officer, Mr. Leach has a three-year employment agreement with Covista effective as of May 18, 2000, pursuant to which Mr. Leach was paid base salary at the rate of \$300,000 per annum during fiscal 2001. Pursuant to this agreement, Mr. Leach was also entitled to receive a signing bonus in the amount of \$25,000 to cover relocation and other expenses, but to date Mr. Leach has been paid only \$15,000 of this amount. Mr. Leach is also entitled to receive an annual bonus in an amount not to exceed 100 percent of his then effective base salary, based upon Mr. Leach's attainment of annual revenue and earnings targets as well as management goals set by the Board of Directors. Mr. Leach was guaranteed a minimum bonus payment of \$150,000 during the first year of this agreement.

In connection with his appointment as Chief Executive Officer of Covista, Mr. Leach was granted an option under Covista's 1996 Stock Option Plan to purchase 288,000 shares of Covista Common Stock. The option granted to Mr. Leach was scheduled to vest over a period of three years, in six equal semi-annual installments, the first of which commenced on November 18, 2000. The exercise price for the option was \$14.25 and was based on

calculated based on the average closing price of the Covista Common Stock for the 40 trading days prior to May 18, 2001. In lieu of adjusting the exercise price of Mr. Leach's options in the manner provided in his employment agreement, on February 1, 2001 Covista granted to Mr. Leach an option to purchase 288,000 shares of Covista Common Stock, vesting over a period of three years, in six equal semi-annual installments, the first of which commenced on August 1, 2001. The exercise price for the option is \$2.00 per share and is based on the fair market value of the Covista Common Stock on the date of grant. The option expires after a term of ten years.

In the event of a "change of control" of Covista, as defined in his employment agreement, Mr. Leach's stock option, and similar benefits, if any, shall be deemed to vest in full on the effective date of such change of control. Pursuant to the agreement, a "change of control" shall be deemed to occur if: (i) any "person" or "group" (as such terms are used in Sections 3, 3(a), 9 and 13(d) of the Securities Exchange Act of 1934, as amended (the "Act")) other than Wait Anderson, Revision LLC or any of their respective affiliates becomes a beneficial owner (as such term is used in the rules promulgated under the Act), directly or indirectly, of securities of Covista representing 50 percent or more of the combined voting power of Covista's then outstanding securities; (ii) a change in "control" of Covista (as such term is defined in Rule 12b-2) shall have occurred; (iii) the majority of the Board of Directors, as such entire Board of Directors was composed as of May 18, 2000, no longer serve as directors of Covista, except that there shall not be counted toward such majority who no longer serve as directors Mr. Leach or any director who ceased to serve either prior to the date of the change in control, for any reason, or at any other time due to voluntary resignation (other than in connection with an event described in (iv) or (v) below), death, disability or termination for cause; (iv) the stockholders of Covista approve a plan of complete liquidation of Covista or an agreement for the sale or disposition by Covista of all or substantially all of Covista's assets; or (v) the stockholders of Covista approve a merger or consolidation of Covista with any other company, other than a merger or consolidation which would result in the combined voting power of Covista's voting securities outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50 percent of the combined voting power of the voting securities of Covista or such surviving entity outstanding immediately after such merger or consolidation; provided, however, that no change in control shall be deemed to have occurred in any plan of liquidation, sale of assets, merger or consolidation provided in (iv) and (v) above is not consummated. In addition, any transaction involving a leveraged buyout or other acquisition of Covista which would otherwise constitute a change in control, in which Mr. Leach participates in the surviving or successor entity (other than solely as an employee or consultant) will not constitute a change in control.

As Covista's Chief Operating Officer, Mr. Alward has a two-year employment agreement effective as of March 29, 2001, pursuant to which Mr. Alward is paid an annual base salary of \$250,000. Pursuant to this agreement, Mr. Alward received a signing bonus in the amount of \$24,000. Mr. Alward is also entitled to receive an annual bonus in an amount not to exceed 100 percent of his then effective base salary, based upon Covista's attainment of annual revenue and earnings targets as well as management goals set by the Board of Directors. Mr. Alward's agreement provides that he shall receive the same percentage bonus as Mr. Leach. Mr. Alward is guaranteed a minimum bonus payment of \$125,000 for each year of this agreement.

In connection with his appointment as Chief Operating Officer of Covista, Mr. Alward was granted an option under Covista's 2001 Equity Incentive Plan to purchase 250,000 shares of Covista Common Stock. The option granted to Mr. Alward vests over a period of five years, in ten equal semi-annual installments, the first of which commenced on September 29, 2001. The exercise price for the option is \$2.00.

In the event of a "change of control" of Covista, as defined in his employment agreement, Mr. Alward's stock option, and similar benefits, if any, shall be deemed to vest in full on the effective date of such change of control. Mr. Alward's employment agreement defines "change of control" in the same manner as Mr. Leach's employment agreement, as described above.

Compensation Committee Interlocks and Insider Participation

Jay J. Miller, a director of Covista, provided various legal services for Covista during fiscal 2002. In fiscal 2002, Covista paid \$144,574 to Mr. Miller for services rendered and accrued during fiscal 2002. As of February 22, 2002, Covista had invoices payable to Mr. Miller totalling \$179,316. Covista believes that Mr. Miller's fees were reasonable for the services performed and were no less favorable to Covista than could have been obtained from an unrelated third party.

The following report describes the policies pursuant to which compensation was paid to executive officers of Covista for performance during the fiscal year ended January 31, 2002.

Compensation Philosophy and Approach. Generally, Covista seeks to attract, retain and motivate its executive officers through a combination of base salary, incentive awards based upon individual performance and stock option awards under The Covista Communications, Inc. 2001 Equity Incentive Plan and otherwise. The Board of Directors believes that a substantial portion of the aggregate annual compensation of each executive officer should be influenced by the performance of Covista and the individual contribution of the executive officer.

Base Salaries. The Board of Directors believes that the base salaries of Covista's executive officers for fiscal 2001 were generally below those for other comparable positions within the telecommunications service industry and similar industries. However, Covista places significant emphasis on incentive awards and stock option grants as a means of motivating and rewarding its management. The Board of Directors believes that this strategy provides optimal incentives for management to create long-term stockholder value.

Incentive Compensation Payments. In addition to base pay, some of Covista's senior executives (including its Chief Executive Officer) are eligible to receive bonuses and stock option awards. Bonuses and stock options may be awarded, based upon the individual performance of each executive officer at the sole discretion of the Board of Directors. During the Fiscal Year 2002 John Leach received a cash bonus of \$400,000 of which \$250,000 was payable to Mr. Leach for the period May 1, 2000 to April 30, 2001 but not paid until FY 2002; Kevin Alward received a bonus of \$104,167; and Thomas Gunning received a bonus of \$15,000. Stock option grants made to the Named Executive Officers during fiscal 2002 are described in "Option/SAR Grants in Last Fiscal Year."

Compensation of the Chief Executive Officer. The compensation policies applicable to Covista's Chief Executive Officer are similar to those applicable to Covista's other executive officers. Mr. Leach has a three-year employment agreement with Covista effective as of May 18, 2000, pursuant to which Mr. Leach was paid base salary at the rate of \$300,000 per annum during fiscal 2001. Pursuant to this agreement, Mr. Leach was also entitled to receive a signing bonus in the amount of \$25,000 to cover relocation and other expenses, but to date Mr. Leach has been paid only \$15,000 of this amount. Mr. Leach is also entitled to receive an annual bonus in an amount not to exceed 100 percent of his then effective base salary, based upon Mr. Leach's attainment of annual revenue and earning targets, as well as management goals set by the Board of Directors. Mr. Leach was guaranteed a minimum bonus payment of \$150,000 during the first year of this agreement.

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ITEM 12. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners. The following table sets forth the beneficial ownership of Covista's Common Stock as of April 30, 2002 by each person or group known by Covista to be the beneficial owner of five percent or more of the outstanding shares of Covista Common Stock. Unless otherwise indicated, each such person (alone or with family members) has sole voting and dispositive power with respect to the shares listed opposite such person's name.

Name and Address Of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percentage of Class(2)
Kevin A. Alward 182 Powell Road Allendale, NJ 07401	1,255,779(3)	9.9%
Walt Anderson 2000 L Street, N.W., #202 Washington, DC 20036	2,023,125(4)	16.1%
Warren Feldman 45A Samworth Road Clifton, NJ 07012	1,119,578(5)	8.9%
Foundation for the International Non-Governmental Development of Space 1023 31 st Street NW Suite 300 Washington, DC 20007	923,844(6)	7.3%
Henry G. Luken, III 400 Fairway Lane Soddy Daisy, TN 37379	4,531,133(7)	35.9%

- (1) Except as otherwise set forth in the footnotes to this table, all shares are beneficially owned and sole investment and voting power is held by the persons named above, to the best of Covista's knowledge. Shares of Covista Common Stock subject to options that are currently exercisable or exercisable within 60 days of December 11, 2001 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (2) Based on 10,819,405 shares outstanding.
- (3) Includes 25,000 shares of Covista Common Stock issuable to Mr. Alward under presently exercisable options. Also includes 186,516 shares of Covista Common Stock owned by trusts of which Mr. Alward's minor children are beneficiaries, as to which Mr. Alward disclaims beneficial ownership. Based on the Schedule 13D jointly filed by Mr. Alward and certain related entities on November 16, 2001.
- (4) Includes 1,297,796 shares of Covista Common Stock owned of record by Revision LLC, a wholly owned subsidiary of Gold & Appel Transfer, S.A., as to all of which shares Mr. Anderson exercises sole voting and dispositive power. Of the 1,297,796 shares owned of record by Revision LLC, 1,179,732 are pledged to Donald A. Burns to secure a loan. Also includes 725,329 shares owned by the Foundation for the International Non-Governmental Development of Space, of which Mr. Anderson is the President and a director, and as to which Mr. Anderson disclaims beneficial ownership. Based on the Schedule 13D/A jointly filed by Walt Anderson, Gold & Appel and Revision on November 19, 2001. Notice has been received from Mr. Burns legal representative that Mr. Anderson is in default of the loan agreement and that Mr. Burns is to exercise his rights as a secured party with respect to the pledged shares.
- (5) Includes 300,000 shares of Covista Common Stock owned by The Warren H. Feldman Family LLC., as to which shares Mr. Feldman disclaims beneficial ownership. Based on the Schedule 13D/A filed by Mr. Feldman on August 22, 2001.
- (6) Of the 923,844 shares of Covista Common Stock owned by the Foundation for the International Non-Governmental Development of Space, 703,529 shares are pledged to Donald A. Burns to secure a loan. Notice has been received from Mr. Burns legal representative that Mr. Anderson is in default of the loan agreement and that Mr. Burns is to exercise his rights as a secured party with respect to the pledged shares.

Security Ownership of Management. The following table sets forth as of April 30, 2002, information concerning the beneficial ownership of Covista Common Stock by each director, each nominee for election as a director, and each Named Executive, and for all directors, director nominees and executive officers as a group:

Name and Address Of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percentage of Class(2)
Kevin A. Alward	1,255,779(3)	10.0%
Walt Anderson	2,946,969 (4)	23.3%
Leon Genet	41,120	*
Thomas P. Gunning	62,300(5)	*
Donald Jones	5,000	*
A. John Leach, Jr.	438,000(6)	3.5%
Henry G. Luken, III	4,531,133(7)	35.9%
Nicholas Merrick	100	*
Jay J. Miller	35,400(8)	*
All directors, director nominees and executive officers as a group (9 persons)	9,328,601(3)-(7)	74.0%

* Less than one percent.

- (1) Except as otherwise set forth in the footnotes to this table, all shares are beneficially owned and sole investment and voting power is held by the persons named above, to the best of Covista's knowledge. Shares of Covista Common Stock subject to options that are currently exercisable or exercisable within 60 days of December 11, 2001 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (2) Based on 10,819,405 shares outstanding
- (3) Includes 25,000 shares of Covista Common Stock issuable to Mr. Alward under presently exercisable options. Also includes 186,516 shares of Covista Common Stock owned by trusts of which Mr. Alward's minor children are beneficiaries, as to which Mr. Alward disclaims beneficial ownership. Based on the Schedule 13D jointly filed by Mr. Alward and certain related entities on November 16, 2001.
- (4) Includes 1,297,796 shares of Covista Common Stock owned of record by Revision LLC, a wholly owned subsidiary of Gold & Appel Transfer, S.A., as to all of which shares Mr. Anderson exercises sole voting and dispositive power. Of the 1,297,796 shares owned of record by Revision LLC, 1,179,732 shares are pledged to Donald A. Burns to secure a loan. Covista has received notice from Mr. Burns that the loan is in default and it is Mr. Burns' intention to take ownership of the pledged shares. Also includes 725,329 shares owned by the Foundation for the International Non-Governmental Development of Space, of which Mr. Anderson is the President and a director, and as to which Mr. Anderson disclaims beneficial ownership. Based on the Schedule 13D/A jointly filed by Walt Anderson, Gold & Appel Revision on November 19, 2001.
- (5) Includes 37,000 shares of Covista Common Stock issuable to Mr. Gunning under currently exercisable options. Does not include 25,400 shares owned by Mr. Gunnings' spouse.
- (6) Includes 192,000 shares of Covista Common Stock issuable to Mr. Leach under currently exercisable options.
- (7) Based on the Schedule 13D/A filed by Mr. Luken on April 13, 2001.
- (8) Includes 35,000 shares of Covista Common Stock issuable to Mr. Miller under currently exercisable options.

c) Changes in Control

In August, 2000, Walt Anderson and two entities controlled by him, Gold & Appel Transfer, S.A. and Revision LLC, along with FINDS, entered into a Stock Pledge Agreement with Donald A. Burns, which was subsequently amended in October 2000 (as amended, the "Pledge Agreement"). Pursuant to the Pledge Agreement, Revision LLC has pledged 1,179,732 shares of Common Stock, and FINDS has pledged 703,529 shares of Common Stock, to secure a \$13,000,000 loan made by Mr. Burns to Mr. Anderson, Gold & Appel Transfer, S.A. and Revision LLC. Such loan is currently in default, and consequently Mr. Burns has voting power with respect to the pledged shares. Were Mr. Burns to foreclose upon the 1,883,261 shares of Common Stock pledged pursuant to the Pledge Agreement, which represent approximately 16% of the outstanding Common Stock, it could result in a change of control of Covista. Gold & Appel has paid back approximately \$4,200,000 of principal on this loan from Mr. Burns. The current value of the loan with accrued interest is approximately \$9,250,000. Covista has received a notification from Mr. Burns confirming that it is Mr. Burns' intention to take ownership of the pledged shares.

On February 1, 2001, the Board of Directors of Covista authorized a transaction (the "Stock Issuance Transaction") involving the issuance and sale of a total of 3,500,000 shares of Common Stock to the following three persons (the "Purchasers") in the amounts indicated: Kevin Alward, 1,000,000 shares; A. John Leach, 500,000 shares; and Henry G. Luken, III, 2,000,000 shares. Pursuant to the rules of the NASD, consummation of the Stock Issuance Transaction was subject to the approval of Covista's shareholders because Messrs. Leach and Luken currently were directors and officers of Covista, and, in addition, it was expected that Mr. Alward would become an officer of Covista. The transaction was approved at a special shareholders meeting on March 29, 2001. The stock was issued in April, 2001.

A change in control of Covista may be deemed to have occurred as a result of the foregoing transactions, as Walt Anderson now controls 23.3% of the outstanding Common Stock, and Henry G. Luken III now controls 35.9% of the outstanding Common Stock.

ITEM 13. Certain Relationships and Related Transactions

Jay J. Miller, a Director of Covista, has provided various legal services for Covista during Fiscal 2002. In Fiscal 2002, Covista paid \$144,574 to Mr. Miller for services rendered and accrued for in Fiscal 2002. As of January 31, 2002, Covista owed Mr. Miller \$179,316. Covista believes that Mr. Miller's fees were reasonable for the services performed and were no less favorable to Covista than could have been obtained from an unrelated third party. In February, 2002, Covista granted to Mr. Miller 35,000 non-statutory shares optionable at \$2.00 per share.

Leon Genet, a Director of Covista, has provided agent services for Covista through his wholly-owned Company, LPJ, Inc. During Fiscal 2002, LPJ, Inc. was paid commissions of \$93,068. The commissions paid to LPJ, Inc. were computed on the same basis as other independent agents retained by Covista.

Walt Anderson, a Director of Covista, serves on the Board of Directors of Capsule Communications, as described in ITEM 10. Henry G. Luken III, the Chairman of the Board of Covista is a major stockholder of Capsule Communications. Covista both purchases and sells services from Capsule Communications, Inc. Sales to Capsule in Fiscal 2002 were approximately \$815,000. Purchases from Capsule were approximately \$660,000. All transactions were based on competitive terms obtained on an arm's length basis. Covista has subsequently merged with Capsule Communications (see Item 1.-Business-Subsequent Events).

Covista has entered into a lease agreement for 28,000 square feet of office space in Chattanooga, Tennessee, with Henry G. Luken III who is Covista's Chairman of the Board and its principal shareholder. The term of the lease is for five years beginning September 1, 2001. The lease provides for annual rent of \$86,400 from September 1, 2001 to August 30, 2002; \$115,200 from September 1, 2002 to August 30, 2003; \$144,000 from September 1, 2003 to August 30, 2004, with the last two years to be \$144,000 annually adjusted for the Consumer Price Index. Covista believes that such premises are leased on terms similar to an arm's length transaction.

On July 2, 2001, Covista received a loan from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of \$4,000,000. The loan matures on February 1, 2003 together with accumulated interest at a rate of 7% per annum. The proceeds of the loan were used to purchase a 10-year commitment for approximately 2.8 billion DS-0 channel miles of telecommunications network capacity from an unaffiliated party. The unaffiliated party has recently filed for Chapter 11 reorganization; however at the time of this filing is continuing to perform under the agreement. Mr. Luken also advanced the company \$400,000, the proceeds of which were used for construction of new facilities.

On February 1, 2001, the Board of Directors of the Company, subject to perfunctory shareholder's approval which was obtained on March 29, 2001, authorized the sale of a total of 3,500,000 shares of Common Stock to the following three persons (the "Purchasers") in the amounts indicated: Kevin Alward, 1,000,000 shares; A. John Leach, 500,000 shares; and Henry G. Luken, III, 2,000,000 shares. The purchase price for the Common Stock to be issued to Messrs. Alward, Leach and Luken is \$2.00 per share, based on the fair market value of shares at February 2, 2001. The stock sale was consummated in April 2001 with the issuance of 3,150,000 shares of Common Stock. The Board of Directors authorized a decrease of 350,000 shares to be purchased by Mr. Leach.

On February 1, 2001, the Board of Directors of the Company authorized the acquisition of Blink Data Corporation, a telecommunications company, of which Kevin Alward was a principal shareholder, officer and director, for 300,000 shares of the Company's Common Stock valued at the fair market value at March 29, 2001, for total consideration of \$900,000. The transaction was completed on March 29, 2001.

On July 24, 2001, the Company issued a note receivable to Capsule Communications, Inc. of which a director and the chairman of the Company are principal shareholders. The note was for a total principal of \$200,000 with interest payable of 8 3/4% to be paid no later than July 24, 2002. On August 9, 2001, the Company issued a note receivable to Capsule Communications, Inc. The note was for a total principal of \$300,000 with interest payable of 8 3/4% to be paid no later than August 9, 2002.

On August 31, 2001, Covista entered into a transaction with Applied Financial Corp. an unaffiliated firm involving the sale and leaseback of a telecommunications switch. Covista realized proceeds of approximately \$1,250,000 from the sale portion of the transaction, and agreed to lease back the switch for a three-year period at a cost of approximately \$420,000 per annum. Henry G. Luken, III provided an unconditional guaranty of Covista's payment obligations to Applied Financial under the lease. Covista did not compensate Mr. Luken for providing such guaranty.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the fifteenth day of May, 2002

COVISTA COMMUNICATIONS, INC.
(Registrant)

By: /S/ Henry G. Luken III
Henry G. Luken III
Chairman of the Board

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/S/ Henry G. Luken III</u> Henry G. Luken III	Chairman of the Board	May 15, 2002
<u>/S/ Walt Anderson</u> Walt Anderson	Director	May 15, 2002
<u>/S/ Kevin Alward</u> Kevin Alward	Director, Chief Operating Officer	May 15, 2002
<u>/S/ Leon Genet</u> Leon Genet	Director	May 15, 2002
<u>/S/ Donald Jones</u> Donald Jones	Director	May 15, 2002
<u>/S/ A. John Leach</u> A. John Leach	Director, President and Chief Executive Officer	May 15, 2002
<u>/S/ Nicholas Merrick</u> Nicholas Merrick	Director	May 15, 2002
<u>/S/ Jay J. Miller</u> Jay J. Miller	Director	May 15, 2002
<u>/S/ Thomas P. Gunning</u> Thomas P. Gunning	Vice President, Treasurer and Secretary, Chief Financial Officer and Principal Accounting Officer	May 15, 2002

COVISTA COMMUNICATIONS, INC.

AND SUBSIDIARIES

ITEM 14. Exhibits and Financial Statements Schedule Years Ended January 31, 2002, 2001, and 2000

INDEX

(a) (1) **Financial Statements:** The following consolidated financial statements of Covista Communications, Inc. and subsidiaries are included at the end of this Report:

<u>Consolidated Financial Statements:</u>	<u>Page</u>
Independent auditors' report	F-1
Consolidated balance sheets - January 31, 2002 and 2001	F-2
Consolidated statements of loss and comprehensive loss - years ended January 31, 2002, 2001 and 2000	F-3
Consolidated statements of shareholders' equity - years ended January 31, 2002, 2001, 2000	F-4
Consolidated statements of cash flows - years ended January 31, 2002, 2001, 2000	F-5
Notes to consolidated financial statements	F-7
(a) (2) Supplementary Data Furnished Pursuant to the Requirements of FORM 10-K:	
Schedule - years ended January 31, 2002, 2001 and 2000	
II Valuation and Qualifying Accounts (Consolidated)	F-24

Schedules other than those listed above are omitted because they are not required, not applicable or the information has been otherwise supplied.

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INDEPENDENT AUDITORS' REPORT

**Board of Directors and Shareholders
Covista Communications, Inc.
150 Clove Road
Little Falls, New Jersey 07424**

We have audited the accompanying consolidated balance sheets of Covista Communications, Inc. and subsidiaries (the "Company") as of January 31, 2002 and 2001, and the related consolidated statements of loss and comprehensive loss, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2002. Our audits also included the consolidated financial statement schedule listed in the Index at Item 14(a)(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Covista Communications, Inc. and subsidiaries as of January 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

**/s/ DELOITTE & TOUCHE LLP
New York, New York
April 26, 2002
(May 14, 2002 as to Note 21b)**

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JANUARY 31, 2002 AND 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,379,038	\$ 2,691,889
Investments available for sale	439,773	537,007
Trade accounts receivable (net of allowance for doubtful accounts of (\$4,987,130 and \$4,075,223 in 2002 and 2001, respectively))	10,252,837	20,526,178
Notes receivable	500,000	-
Prepaid expenses and other current assets	<u>1,373,780</u>	<u>1,225,463</u>
Total current assets	13,945,428	24,980,537
Property and equipment, net	12,489,626	13,020,579
Deferred line installation costs (net of accumulated amortization of \$843,049 and \$745,353 in 2002 and 2001, respectively)	174,785	216,672
Other assets (net of accumulated amortization of \$ 846,452 and \$ 33,761 in 2002 and 2001, respectively.)	<u>4,646,952</u>	<u>879,614</u>
	<u>\$ 31,256,791</u>	<u>\$ 39,097,402</u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 19,465,274	\$ 27,960,046
Other current and accrued liabilities	4,434,795	2,834,557
Salaries and wages payable	991,012	1,304,818
Current portion of long-term debt	<u>381,405</u>	<u>615,053</u>
Total current liabilities	25,272,486	32,714,474
Other long-term liabilities	<u>15,466</u>	<u>223,788</u>
Long-term debt	<u>4,400,000</u>	<u>382,047</u>
Commitments and contingencies (Note 14)		
SHAREHOLDERS' EQUITY:		
Common Stock, par value \$.05 per share; authorized 50,000,000 shares; issued 12,385,757 shares in 2002 and 9,505,824 shares in 2001	619,288	475,291
Additional paid-in capital	25,650,098	30,016,454
Accumulated deficit	<u>(23,255,107)</u>	<u>(11,285,519)</u>
	3,014,279	19,206,226
Unearned ESOP shares	-	(12,225,000)
Treasury stock-at cost - 1,536,419 shares in 2002 and 2001, respectively	(1,445,440)	(1,445,440)
Accumulated other comprehensive income	<u>-</u>	<u>241,307</u>
Total shareholders' equity	1,568,839	5,777,093
	<u>\$ 31,256,791</u>	<u>\$ 39,097,402</u>

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
NET SALES	<u>\$ 95,312,696</u>	<u>\$ 133,230,437</u>	<u>\$ 139,760,497</u>
COSTS AND EXPENSES:			
Cost of sales	76,475,802	116,059,002	112,794,378
Access charge settlement (Note 18)	-	(1,264,483)	-
Selling, general and administrative (excluding stock compensation)	30,986,877	26,902,962	27,990,145
Restructuring charge	-	-	(318,879)
Other compensation (Note 12)	-	-	5,770,554
Stock compensation	<u>12,011</u>	<u>266,565</u>	<u>204,015</u>
Total costs and expenses	<u>107,474,690</u>	<u>141,964,046</u>	<u>146,440,213</u>
OPERATING LOSS	<u>(12,161,994)</u>	<u>(8,733,609)</u>	<u>(6,679,716)</u>
OTHER INCOME (EXPENSE):			
Interest income	159,996	167,583	115,119
Other income	274,466	41,994	1,105
Interest expense	<u>(242,056)</u>	<u>(105,272)</u>	<u>(147,092)</u>
Total other income (expense), net	<u>192,406</u>	<u>104,305</u>	<u>(30,868)</u>
LOSS BEFORE INCOME TAXES	<u>(11,969,588)</u>	<u>(8,629,304)</u>	<u>(6,710,584)</u>
INCOME TAX PROVISION	-	-	<u>2,703,618</u>
NET LOSS	<u>(11,969,588)</u>	<u>(8,629,304)</u>	<u>(9,414,202)</u>
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Unrealized holding gain	-	<u>79,531</u>	<u>61,055</u>
COMPREHENSIVE LOSS	<u>\$ (11,969,588)</u>	<u>\$ (8,549,773)</u>	<u>\$ (9,353,147)</u>
BASIC LOSS PER COMMON SHARE	<u>\$ (1.17)</u>	<u>\$ (1.18)</u>	<u>\$ (1.33)</u>
DILUTED LOSS PER COMMON SHARE	<u>\$ (1.17)</u>	<u>\$ (1.18)</u>	<u>\$ (1.33)</u>

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

	<u>Common</u> <u>Stock</u>	<u>Additional</u> <u>Paid-In</u> <u>Capital</u>	<u>Retained</u> <u>Earnings</u> <u>(Accumulated</u> <u>Deficit)</u>	<u>Treasury</u> <u>Stock</u>	<u>Unearned</u> <u>ESOP</u> <u>Shares</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u> <u>Income</u>	<u>Total</u>
JANUARY 31, 1999	\$ 455,739	\$ 22,809,518	\$ 6,757,987	\$ (1,456,781)	\$ (12,225,000)	\$ 100,721	\$ 16,442,184
olding gain	-	-	-	-	-	61,055	61,055
mployee stock options	18,727	1,780,422	-	-	-	-	1,799,149
ution (NOTE 12)	-	250,000	-	-	-	-	250,000
it (NOTE 12)	-	4,870,554	-	-	-	-	4,870,554
stock grants	-	-	-	(1,769)	-	-	(1,769)
	-	-	(9,414,202)	-	-	-	(9,414,202)
JANUARY 31, 2000	474,466	29,710,494	(2,656,215)	(1,458,550)	(12,225,000)	161,776	14,006,971
olding gain	-	-	-	-	-	79,531	79,531
mployee stock options / grants	825	135,187	-	-	-	-	136,012
shares for other assets	-	170,773	-	13,380	-	-	184,153
stock grants	-	-	-	(270)	-	-	(270)
	-	-	(8,629,304)	-	-	-	(8,629,304)
JANUARY 31, 2001	475,291	30,016,454	(11,285,519)	(1,445,440)	(12,225,000)	241,307	5,777,093
or Stock	157,500	6,142,500	-	-	-	-	6,300,000
mployee stock options / grants	1,497	41,944	-	-	-	-	43,441
shares for other assets	15,000	885,000	-	-	-	-	900,000
f ESOP	(30,000)	(12,195,000)	-	-	12,225,000	-	-
stock Grants	-	759,200	-	-	-	-	759,200
on sale of Investments	-	-	-	-	-	(241,307)	(241,307)
	-	-	(11,969,588)	-	-	-	(11,969,588)
JANUARY 31, 2002	\$ 619,288	\$ 25,650,098	\$ (23,255,107)	\$ (1,445,440)	\$ -	\$ -	\$ 1,568,839

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (11,969,588)	\$ (8,629,304)	\$ (9,414,200)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	4,568,631	3,577,995	2,985,350
Provision for doubtful accounts	5,382,384	2,346,761	1,074,910
Non-cash stock compensation expense	12,011	266,565	5,324,560
Deferred income taxes	-	-	2,703,610
Restructuring (credit) charge, net of cash paid	-	-	(318,870)
Loss on disposal of property and equipment	-	88,690	16,230
(Gain) loss on sale of investments	(265,733)	5,317	-
Change in assets and liabilities:			
(Increase) decrease in assets:			
Trade accounts receivable	4,890,957	789,518	(6,004,890)
Prepaid expenses and other current assets	251,683	1,339,568	(305,540)
Other assets	(164,300)	(293,584)	52,530
Increase (decrease) in liabilities:			
Accounts payable	(8,494,772)	3,157,678	4,102,220
Other current and accrued liabilities	2,033,621	(558,312)	(110,780)
Other long-term liabilities	(208,322)	(26,744)	(43,960)
Net cash (used in) provided by operating activities	<u>(3,963,428)</u>	<u>2,064,148</u>	<u>61,100</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net Assets acquired in purchase of Blink Data Corporation	90,402	-	-
Proceeds from sales and maturities of investments available for sale (net)	115,529	86,788	-
Purchases of property and equipment	(5,465,329)	(3,227,593)	(3,018,710)
Proceeds from sale of property and equipment and leaseback transactions	2,338,038	1,975	17,200
Notes receivable from related party	(500,000)	-	-
Payments for deferred line installation costs	(55,809)	(47,621)	(55,230)
Payments for prepaid network capacity	(4,000,000)	-	-
Collection on notes receivable from employees	-	-	45,400
Net cash used in investing activities	<u>(7,477,169)</u>	<u>(3,186,451)</u>	<u>(3,011,320)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the Issuance of Common Stock	6,300,000	-	-
Proceeds from Stock Options exercised	43,441	8,437	1,799,100
Note payable to related party	4,400,000	-	-
Repayment on bank borrowings	(615,695)	(568,724)	(526,400)
Net cash provided by (used in) financing activities	<u>10,127,746</u>	<u>(560,287)</u>	<u>1,272,700</u>

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JANUARY 31, 2002, 2001 AND 2000
(Continued)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$(1,312,851)	\$(1,682,590)	\$(1,677,413)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,691,889</u>	<u>4,374,479</u>	<u>6,051,892</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,379,038</u>	<u>\$ 2,691,889</u>	<u>\$ 4,374,479</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid (received) during the year for:			
Interest	<u>\$ 242,056</u>	<u>\$ 105,272</u>	<u>\$ 147,092</u>
Income taxes	<u>\$ 1,560</u>	<u>\$(1,643,227)</u>	<u>\$ 3,400</u>
Non-cash:			
Issuance of treasury stock for customer lists included in other assets	<u>\$ -</u>	<u>\$ 184,153</u>	<u>\$ -</u>
Issuance of Common Stock in connection with Blink Data acquisition for other assets and cash	<u>\$ 900,000</u>	<u>\$ -</u>	<u>\$ -</u>

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

1. NATURE OF OPERATIONS

Covista Communications, Inc. ("Covista"), and its wholly-owned subsidiaries (collectively, the "Company") operates as a switch based resale common carrier providing twenty-four hour, seven day a week, domestic and international long distance telecommunications service to customers throughout the United States. The Company's principal customers are primarily businesses and other common carriers. On September 15, 2000, the Company changed its name from Total-Tel USA Communications, Inc. to Covista Communications, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of Covista Communications, Inc. and its subsidiaries, all of which are wholly-owned. All intercompany transactions and balances have been eliminated in the consolidated financial statements.

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

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

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

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

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

Customer Lists - Customer lists, included in other assets, represents the fair value of the customer base acquired and is being amortized using an accelerated method over a period of 3 years. The carrying value of the customer list is reviewed on a quarterly basis for the existence of facts or circumstances, both internally and externally, that may suggest impairment. During fiscal year 2001, the Company acquired a customer list through the issuance of 14,234 shares of treasury stock valued at the fair market value of the Company's Common Stock on the date of the transaction. During fiscal year 2002, the Company acquired a customer list through an acquisition by issuing 300,000 shares of its Common Stock at the fair market value of the Company's Common Stock on the date of the transaction. The excess of the purchase price over the net assets of company acquired were allocated 100% to the customer list.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

Use of Estimates - The preparation of consolidated 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, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

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

Loss per Share - Basic loss per share is represented by net loss available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if securities or stock options were exercised or converted into Common Stock during the period, if dilutive (see Note 15).

Authorized Common Stock - On February 23, 2000, the Company's shareholders approved an increase in the number of authorized shares of Common Stock from 20,000,000 to 50,000,000 shares.

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

Fair Value of Financial Instruments - For cash and cash equivalents, the carrying value is a reasonable estimate of its fair value. The estimated fair value of publicly traded financial instruments is determined by the Company using quoted market prices, dealer quotes and prices obtained from independent third parties. For financial instruments not publicly traded, fair values are estimated based on values obtained from independent third parties or quoted market prices of comparable instruments. The fair value of the debt was determined based on interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities for debt issues that are not traded on quoted market prices. However, judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange.

The carrying values and fair values of financial instruments are as follows:

	2002		2001	
	Carrying Value	Fair Value	Value	Value
Assets:				
Cash and cash equivalents	\$ 1,379,038	\$ 1,379,038	\$ 2,691,889	\$ 2,691,889
Investments available for sale	\$ 439,773	\$ 439,773	\$ 537,007	\$ 537,007
Liabilities:				
Debt	\$ 4,781,405	\$ 4,781,405	\$ 997,100	\$ 997,100

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

Long-Lived Assets - The Company accounts for the impairment of long-lived assets and for long-lived assets to be disposed of by evaluating the carrying value of its long-lived assets in relation to the operating performance and future undiscounted cash flows of the underlying businesses annually and when indications of impairment are present. Long-lived assets to be disposed of, if any, are evaluated in relation to the net realizable value. If impairment is indicated, the amount of the impairment is typically calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on the Company's weighted average cost of capital. If the carrying value of the asset exceeds the fair value of the asset, the difference will be charged to the results of operations in the period that the impairment occurred.

Recent Accounting Pronouncements - Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company adopted FAS 133 effective February 1, 2001. The adoption of SFAS 133 did not have a significant impact on the financial position, results of operation, or cash flows of the Company.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. Covista does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements, beyond the cessation of goodwill amortization on future business combinations. As of January 31, 2002 Covista has no Goodwill recorded on its books.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective February 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires Covista to complete a transitional goodwill impairment test six months from the date of adoption. Covista is currently assessing but has not yet determined the impact of SFAS 142 on its financial position and results of operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations", which is effective for all fiscal years beginning February 1, 2003. SFAS 143 requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. Covista is currently assessing but has not yet determined the impact of SFAS 143 on its financial position and results of operations.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long Lived Assets", which is effective February 1, 2002. SFAS 144 replaces the Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS 144 requires that long-lived assets be measured at the lower of the carrying amount or fair value, less cost to sell, whether included in continuing operations or in discontinued operations. Covista is currently assessing but has not yet determined the impact of SFAS 144 on its financial position and results of operations.

3. SEGMENT REPORTING

The Company sells telecommunication services to two distinct segments: a retail segment, consisting primarily of small to medium size businesses within the Northeastern United States, and a wholesale segment, with sales to other telecommunications carriers.

In addition to direct costs, each segment is allocated a proportion of the Company's operating expenses, including utilization of its switch and facilities. The allocation of expenses is based upon the minutes of use flowing through the Company's switching network. There are no intersegment sales. Assets are held at the consolidated level and are not allocable to the operating segments. Management evaluates performance on operating results of the two business segments.

Summarized financial information concerning the Company's reportable segments is shown in the following table.

	Retail	Wholesale	Total
2002			
Net sales	\$ 47,423,502	\$ 47,889,194	\$ 95,312,696
Gross margin	\$ 18,021,471	\$ 815,423	\$ 18,836,894
Operating loss	\$ (7,013,376)	\$ (5,148,618)	\$(12,161,994)
2001			
Net sales	\$ 53,487,012	\$ 79,743,425	\$133,230,437
Gross margin	\$ 13,082,019	\$ 5,353,899	\$ 18,435,918
Operating loss	\$ (6,541,566)	\$ (2,192,043)	\$ (8,733,609)
2000			
Net sales	\$ 69,023,194	\$ 70,737,303	\$139,760,497
Gross margin	\$ 20,712,262	\$ 6,253,857	\$ 26,966,119
Operating loss	\$ (3,905,664)	\$ 2,996,502	\$ (909,162)
Operating (loss) income after other compensation	\$ (6,760,900)	\$ 81,184	\$ (6,679,716)

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4. INVESTMENT SECURITIES

Investments available for sale consist of:

	2002			2001			Market Value
	Cost	Gross Unrealized Gain	Loss	Cost	Gross Unrealized Gain	Loss	
Bond	\$ 25,000	\$ -	\$ -	\$ 25,000	\$ -	\$ -	\$ 25,000
Mutal Funds	414,773	-	-	200,000	-	-	200,000
Common Stock	-	-	-	70,700	241,307	-	312,007
	<u>\$439,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$439,773</u>	<u>\$295,700</u>	<u>\$241,307</u>	<u>\$537,007</u>

The deferred tax on the net unrealized gains at January 31, 2002 and 2001 were \$0 and \$0, respectively; resulting in net amounts of \$0 and \$241,307 in Accumulated Other Comprehensive Income.

The bond will mature in 2005.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of:

	<u>2002</u>	<u>2001</u>
Machinery and equipment	\$ 17,064,974	\$ 16,429,970
Office furniture, fixtures and equipment	2,672,237	2,755,736
Leasehold Improvements	1,497,811	1,375,200
Vehicles	181,256	181,256
Computer equipment and software	7,325,243	6,881,624
Machinery and equipment in progress	<u>2,102,895</u>	<u>93,339</u>
	30,844,416	27,717,125
Less accumulated depreciation and amortization	<u>18,354,790</u>	<u>14,696,546</u>
	<u>\$ 12,489,626</u>	<u>\$ 13,020,579</u>

Depreciation and amortization expense related to property and equipment for the years ended January 31, 2002, 2001 and 2000, was \$3,658,244, \$3,433,004, and \$2,862,151, respectively.

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6. INCOME TAXES

The provision (benefit) for income taxes includes the following:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Federal			
Current	\$ -	\$ -	\$ -
Deferred	-	-	1,893,850
State income taxes			
Current	-	-	-
Deferred	-	-	809,768
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,703,618</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are provided against assets that are not likely to be realized.

The income tax effects of significant items comprising the Company's net deferred tax asset (liability) are as follows:

	<u>2002</u>		<u>2001</u>	
	<u>Current</u>	<u>Long-term</u>	<u>Current</u>	<u>Long-term</u>
Deferred tax assets:				
Allowance for doubtful accounts	\$ 1,991,860	\$ -	\$ 1,516,570	\$ -
Accrued compensation expense	-	268,130	-	597,480
Unamortized lease incentive	-	-	-	89,380
Accrued expenses	332,560	-	77,180	-
Net operating loss carryforward	-	10,877,719	-	6,566,190
Alternative minimum tax credit	-	593,940	-	593,940
Other	<u>74,550</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total gross deferred tax assets	2,398,970	11,739,789	1,593,750	7,846,990
Less: Valuation allowance	<u>(2,398,970)</u>	<u>(9,530,179)</u>	<u>(1,593,750)</u>	<u>(5,812,790)</u>
Total net deferred tax asset	<u>-</u>	<u>2,209,610</u>	<u>-</u>	<u>2,034,200</u>
Deferred tax liabilities:				
Property and equipment	-	(2,209,610)	-	(1,937,820)
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>(96,380)</u>
Total deferred tax liabilities	<u>-</u>	<u>(2,209,610)</u>	<u>-</u>	<u>(2,034,200)</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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A reconciliation from the U.S. statutory tax rate of 34% to the effective tax rate for income taxes on the consolidated statements of (loss) earnings is as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Computed expense at statutory rates	\$ (4,069,660)	\$ (2,933,963)	\$ (2,281,599)
(Reductions) Increase in taxes resulting from:			
Tax exempt interest income	(550)	(3,140)	(3,320)
State taxes (benefit), net of federal income tax benefit	(708,853)	(513,164)	(191,230)
Put agreement	-	-	1,219,549
Valuation allowance	4,522,609	3,703,659	3,702,881
Other	<u>(256,454)</u>	<u>(253,392)</u>	<u>257,337</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,703,618</u>

At January 31, 2002, for Federal income tax purposes, the Company had net operating loss carryforwards of approximately \$24.4 million which will begin to expire in stages in the year 2020, and alternative minimum tax credit carryforwards of approximately \$594,000. The alternative minimum tax credit does not expire.

7. LEASE COMMITMENTS

The Company rents various facilities under lease agreements classified as operating leases. Several of the underlying agreements contain certain incentives eliminating payments at the inception of the lease. Lease incentives are amortized on a straight-line basis over the entire lease term. Under terms of these leases, the Company is required to pay its proportionate share of increases in real estate taxes, operating expenses and other related costs.

The Company leases warehouse space in Belleville, New Jersey from a partnership in which two of the partners were directors and major shareholders of the Company. Both partners are no longer directors. During the fiscal years ended January 31, 2002, 2001 and 2000, the Company paid rent of \$21,530, \$49,479 and \$62,848, respectively to the partnership. The lease expired on November 30, 1998, and has been renewed subject to termination upon 120-days prior written notice by either party. The lease was amended on August 31, 1999 to provide an annual rate of \$47,980. The lease terminated during the fiscal-year ending January 31, 2002.

Covista has entered into a lease agreement for 28,000 square feet of office space in Chattanooga, Tennessee, with Henry G. Luken III who is Covista's Chairman of the Board and its principal shareholder. The term of the lease is for five years beginning September 1, 2001. The lease provides for annual rent of \$86,400 from September 1, 2001 to August 30, 2002; \$115,200 from September 1, 2002 to August 30, 2003; \$144,000 from September 1, 2003 to August 30, 2004, with the last two years to be \$144,000 annually adjusted for the Consumer Price Index. Covista believes that such premises are leased on terms similar to an arm's length transaction.

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In July 2001, Covista entered into an approximately \$1,245,000 sale and leaseback transaction whereby Covista sold and leased back new and existing telecommunications switching equipment purchased earlier in the current fiscal year. The equipment was sold for the original purchase price. The term is three years and Covista has an option to repurchase the equipment at fair market value at lease termination. The related lease is being accounted for as an operating lease.

In November 2001, Covista negotiated another sale and leaseback transaction for a second telecommunications switch for approximately \$1,092,700. The lease contract is similar to the first transaction, with a term of three years with an option to repurchase the equipment at fair market value at lease termination. The second lease is also accounted for as an operating lease.

Future minimum annual rentals on these leases as of January 31, 2002 are as follows:

Year ending January 31,	
2003	\$ 1,919,281
2004	1,213,050
2005	1,090,740
2006	426,640
2007	366,640
2008 and thereafter	<u>1,504,391</u>
	<u>\$6,520,742</u>

Rental expense for the years ended January 31, 2002, 2001 and 2000 was approximately \$2,355,000, \$1,500,000, and \$1,377,000, respectively.

8. EMPLOYEE BENEFIT PLANS

The Company has established a savings Incentive plan for substantially all employees of the Company which is qualified under section 401(k) of the Internal Revenue Code. The savings plan provides for contributions to an independent trustee by both the Company and its participating employees. Under the plan, employees may contribute up to 15% of their pretax base pay. The Company matches 50% of the first 6% of participant contributions. Participants vest immediately in their own contributions and over a period of six years for the Company's contributions. Company contributions were approximately \$162,000, \$95,000, and \$125,000, for the years ended January 31, 2002, 2001 and 2000, respectively.

9. STOCK OPTION PLANS

The Company has four stock option plans authorizing the granting of either Incentive Stock Options or Nonqualified Stock Options. The 1987 Stock Option Plan (the "1987 Plan") provided for the issuance of an aggregate of not more than 1,329,800 shares of the Company's Common Stock. The 1996 Stock Option Plan (the "1996 Plan") provides for the issuance of an aggregate of not more than 600,000 shares of the Company's Common Stock. The 1999 Equity Incentive Plan (the "1999 Plan") provides for the issuance of an aggregate of not more than 750,000 shares of the Company's Common Stock. The 2001 Equity Incentive Plan (the "2001 Plan") provides for the issuance of an aggregate of not more than 900,000 shares of the Company's Common Stock.

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Stock Options granted pursuant to the Plans must have an exercise price equal to at least 50% of the fair market value of the Company's Common Stock at the time the option is granted. Incentive Stock Options may be granted only to employees. Nonqualified Stock Options may be granted to employees as well as directors, independent contractors and agents, as determined by the Board of Directors. All options available to be granted under the 1987 Plan were granted prior to September 1, 1997. All options available to be granted under the 1996 Plan, totaling 49,350 at January 31, 2002, must be granted by October 10, 2006. All options available to be granted under the 1999 Plan, totaling 242,667 at January 31, 2002, must be granted by February 23, 2009. All options available to be granted under the 2001 Plan, totaling 47,400 at January 31, 2002, must be granted by February 8, 2012.

At January 31, 2002, shares under the 2001 Plan had not been registered by the Company. The options currently outstanding have terms that expire between five and ten years from the date of grant and vest over a period of one to four years from the date of the grant.

On February 23, 2000, the Board of Directors passed a resolution allowing the Company to reprice all outstanding options granted under the 1996 Plan and the 1999 Plan. All outstanding options, approximately 243,000 net of cancellations, which were originally granted at prices ranging from \$14.63 to \$21.50 per share were repriced to \$14.25 per share. Accordingly, the option prices per share and weighted average exercise price in the following 1996 Plan and 1999 Plan tables have been restated to reflect the \$14.25 exercise price. All other terms and conditions, including vesting periods remain unchanged. The repriced options are subject to variable plan accounting and as a result there was no income statement effect of these options in the year ended January 31, 2002 and January 31, 2001 due to the decrease in the Company's stock price below the new exercise price.

On February 1, 2001, 35 employees were given the opportunity to cancel 248,200 options to purchase Common Shares. All 35 agreed to cancel the options. On August 2, 2001 248,200 options to purchase Common Shares were issued at the then closing market price of \$5.65 per share.

Information regarding options under the 1987 Plan is as follows:

	<u>Option Price</u> <u>Per Share</u>	<u>Outstanding</u>	<u>Exercisable</u>	<u>Weighted</u> <u>Average</u> <u>Exercise Price</u>
January 31, 1999 balance	\$0.51 - \$4.81	310,000	310,000	\$ 1.77
Exercised	<u>\$0.51 - \$4.81</u>	<u>(211,000)</u>	<u>(211,000)</u>	<u>\$ 2.25</u>
January 31, 2000 balance	\$0.51 - \$1.00	99,000	99,000	\$ 0.75
Exercised	<u>\$ 0.51</u>	<u>(16,500)</u>	<u>(16,500)</u>	<u>\$ 0.51</u>
January 31, 2001 balance	\$0.51 - \$1.00	82,500	82,500	\$ 0.80
Exercised	\$ 1.00	(16,500)	(16,500)	\$ 1.00
Cancelled	<u>\$0.51 - \$1.00</u>	<u>(66,000)</u>	<u>(66,000)</u>	<u>\$ 0.80</u>
January 31, 2002 balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>

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Information regarding options under the 1996 Plan is as follows:

	<u>Option Price</u> <u>Per Share</u>	<u>Outstanding</u>	<u>Exercisable</u>	<u>Weighted</u> <u>Average</u> <u>Exercise Price</u>
January 31, 1999 balance	\$ 7.25 - \$14.25	342,100	175,000	\$ 10.99
Granted	\$14.25	261,500	-	\$ 14.25
Became Exercisable	\$14.25	-	87,683	\$ 14.25
Exercised	\$ 7.25 - \$14.25	(165,500)	(165,500)	\$ 7.90
Cancelled	\$ 7.25 - \$14.25	(94,100)	-	\$ 14.25
January 31, 2000 balance	\$10.00 - \$14.25	344,000	97,183	\$ 14.06
Became Exercisable	\$14.25	-	18,184	\$ 14.25
Cancelled	\$14.25	(259,600)	(64,000)	\$ 14.25
January 31, 2001 balance	\$10.00 - \$14.25	84,400	51,367	\$ 13.50
Granted	\$2.00	523,000	-	\$ 2.00
Became Exercisable	\$2.00	-	101,000	\$ 2.00
Cancelled	\$ 2.00- \$14.25	(259,400)	(51,367)	\$ 5.74
Exercised	\$2.00	(5,000)	(5,000)	\$ 2.00
January 31, 2002 balance	\$2.00	343,000	96,000	\$ 2.00

Information regarding options under the 1999 Plan is as follows:

	<u>Option Price</u> <u>Per Share</u>	<u>Outstanding</u>	<u>Exercisable</u>	<u>Weighted</u> <u>Average</u> <u>Exercise Price</u>
January 31, 1999 balance	\$ -	-	-	\$ -
Granted	\$ 14.25	684,500	-	\$ 14.25
Became Exercisable	\$ 14.25	-	48,000	\$ 14.25
Cancelled	\$ 14.25	(163,500)	-	\$ 14.25
January 31, 2000 balance	\$ 14.25	521,000	48,000	\$ 14.25
Granted	\$ 14.25	365,100	-	\$ 14.25
Became Exercisable	\$ 14.25	-	92,375	\$ 14.25
Cancelled	\$ 14.25	(372,600)	(48,000)	\$ 14.25
January 31, 2001 balance	\$ 14.25	513,500	92,375	\$ 14.25
Granted	\$ 2.00 - \$7.00	558,400	-	\$ 3.76
Became Exercisable	\$ 2.00 - \$3.50	-	8,433	\$ 2.02
Cancelled	\$ 3.00 - \$14.25	(573,000)	(89,175)	\$ 12.93
Exercised	\$ 2.00 - \$3.50	(8,433)	(8,433)	\$ 2.02

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Information regarding options under the 2001 Plan is as follows:

	<u>Option Price</u> <u>Per Share</u>	<u>Outstanding</u>	<u>Exercisable</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u>
January 31, 2001 balance	\$ -	-	-	\$ -
Granted	\$ 2.00 - \$6.71	855,500	-	\$ 4.02
Became Exercisable	\$ 2.00 - \$5.65	-	213,899	\$ 4.26
Cancelled	\$ 5.65	(2,900)	-	\$ 5.65
January 31, 2002 balance	<u>\$ 2.00 - \$6.71</u>	<u>852,600</u>	<u>213,899</u>	<u>\$ 4.02</u>

The following table summarizes information about options outstanding as of January 31, 2002 under the 1987, 1996, 1999 and 2001 Plans:

<u>Range of</u> <u>exercise prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number of</u> <u>Shares</u> <u>outstanding</u>	<u>Average</u> <u>Remaining</u> <u>Contractual</u> <u>Life</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Number of</u> <u>Shares</u> <u>outstanding</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>
\$2.00 - \$7.00	1,672,867	5.23	\$ 3.52	309,899	\$ 3.56
\$ 7.01 - \$14.25	13,200	3.07	\$14.25	3,200	\$ 14.25

The Company has adopted the disclosure-only provision of SFAS No. 123, "Accounting for Stock-Based Compensation." Had compensation cost for the Company's plans been determined based on the fair value at the grant date for awards in the fiscal years ended January 31, 2002, 2001 and 2000, consistent with the provisions of SFAS No. 123, the Company's net loss and basic and diluted loss per share would have been \$10,837,464, \$1.06 and \$1.06 for 2002; \$8,886,465, \$1.23 and \$1.23 for 2001; \$10,068,538, \$1.43 and \$1.43 for 2000.

The fair value of the option grants is estimated based on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in fiscal 2002, 2001, and 2000: dividend yield of 0.00% for the three years; expected volatility of 165.18%, 62.23% and 46.11%, respectively; risk-free interest rate of 6.47%, 7.85% and 6.02% respectively; and expected lives of 3 to 5 years for each of the three years.

10. STOCK GRANTS

The Company, at the discretion of the Board of Directors, has awarded from time to time to management personnel shares of its Common Stock at par value. These shares vest over a period of three to five years. The Company awarded 0 shares, 0 shares, and 1,000 shares of its Common Stock and recorded compensation expense of \$ 12,011, \$266,565, and \$204,015 for the years ended January 31, 2002, 2001 and 2000, respectively.

Shares cancelled by the Company due to termination or resignation of the recipients for the years ended January 31, 2002, 2001 and 2000 totaled 0, 4,000 and 35,383 respectively, which amounts have been

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11. LONG-TERM DEBT

On July 2, 2001, Covista received a loan from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of \$4,000,000. The loan matures on February 1, 2003 together with accumulated interest at a rate of 8% per annum. The proceeds of the loan were used to purchase a 10-year commitment for approximately 2.8 billion DS-0 channel miles of telecommunications network capacity from an unaffiliated party. This prepaid network capacity is included in prepaid expenses (current portion of \$400,000) and other assets (long term portion of \$3,600,000, net of current year amortization of \$233,000). The cost will be amortized to operations based upon the greater of capacity use or straight line over the term of the agreement. The unaffiliated party has recently filed for Chapter 11 reorganization; however at the time of this filing is continuing to perform under the agreement. Mr. Luken also advanced the Company, \$400,000, the proceeds of which were used for construction of new facilities. The agreement calls for interest to be accrued at a rate of 8% per annum. The total balance of the liability is \$4,400,000 plus accrued interest at January 31, 2002. (see Note 21b)

As of January 31, 2002, Covista owes a remaining balance of \$381,405 loan payable to a New Jersey bank, all of which is classified as current. The interest rate on the term loan is 7.71% and is payable the scheduled monthly installments of \$55,923. The term loan requires the Company to meet certain covenants. The term loan is collateralized by certain of the Company's machinery and equipment. At January 31, 2002, the Company was not in compliance with these covenants.

12. OTHER COMPENSATION

On September 21, 1999, the Company entered into an agreement with Warren Feldman, Chairman of the Board of Directors and a shareholder of the Company. As part of this agreement, a lump sum in the amount of \$900,000 was paid to Mr. Feldman in settlement of his employment agreement. The Company paid \$650,000 and Mr. Walt Anderson, a major shareholder, paid \$250,000. Mr. Feldman's Employment Agreement would have been in effect until December 31, 2001. The Company expensed the \$900,000 with the \$250,000 being accounted for as a capital contribution.

Simultaneously, Revision LLC and Mr. Walt Anderson ("Revision/Anderson") and the Company entered into put option agreements with Warren Feldman, Sol Feldman ("the Feldmans") and Leon Genet, ("Genet") a director of the Company. These Put Option agreements allowed the Feldmans and Genet the right to sell their shares of the Company to Revision/Anderson at a price of \$16.00 per share and obligate Revision/Anderson to purchase the shares during an exercise period beginning on December 11, 1999 and ending on February 10, 2000. Revision/Anderson purchased the shares under the put option agreements prior to the deadline, with the exception of 100,778 shares still held by the Feldmans. The Company had no obligation to purchase any shares from the Feldmans or Genet. The closing market price of the Company's shares on September 21, 1999, the date of the agreements, was \$12.25, and the total number of shares covered by the agreements was 1,208,137. Using a binomial valuation model with an interest rate of 5% and a volatility rate of 50%, the fair value of the Put Option agreements was determined to be approximately \$4.03 per share or \$4,870,554. In accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 83, the Company accounted for this non-cash transaction as a charge to expense and a credit to paid-in capital during the quarter ended October 31, 1999.

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13. RESTRUCTURING

During the fourth quarter of fiscal 1999, the Company recorded a restructuring charge of approximately \$2,368,000 related to the adoption by the Company of a formal plan for restructuring its focus of operations. The restructuring was adopted in an effort to concentrate the Company's efforts on the Northeastern United States market. Elements of the Company's restructuring plan included eliminating the sales offices in Florida, Atlanta, Georgia, Washington D.C. and the United Kingdom as well as the Miami switch.

For the fiscal year ended January 31, 2000, amounts aggregating approximately \$1,797,000 applied against the accrual consisted of approximately \$1,280,000 for the write down of the Miami switch, approximately \$99,000 for the line installation costs, approximately \$51,000 for payments made on the Fort Lauderdale lease, approximately \$327,000 for severance payments and approximately \$40,000 for payments made to shut down the U.K. operation. Additionally, an aggregate of approximately \$319,000 which is reflected as a credit through the restructuring charge line in the fiscal 2000 consolidated financial statements consisted of approximately \$97,000 reduction in the severance accrual, approximately \$20,000 for the reduction of the fringe benefit accrual, and \$202,000 reduction in the accrual on the Fort Lauderdale lease, due to revisions in the lease. The salvageable components of the switch were relocated to the Company's New York City switch in the third quarter of fiscal 2000. After restructuring charges incurred, the balance in the reserve at January 31, 2000, of approximately \$12,000, consisted of the settlement of the lease in Fort Lauderdale, Florida.

In the fiscal year ended January 31, 2001, the Company settled, for approximately \$12,000, the balance on the lease in Fort Lauderdale, Florida, which was charged against the restructuring reserve.

14. COMMITMENTS AND CONTINGENCIES

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

15. LOSS PER SHARE

Basic loss per share was computed by dividing net loss by the weighted average number of shares of Common Stock outstanding during each year. Diluted loss per share was computed on the assumption that all stock options converted or exercised during each year or outstanding at the end of each year were converted at the beginning of each year or at the date of issuance or grant, if dilutive.

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16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Amounts in thousands except per share data.

	April 30, 1999	July 31, 1999	October 31, 1999	January 31, 2000
Net sales	\$ 33,530	\$ 36,617	\$36,988	\$32,625
Operating income (loss)	519	590	(5,954)	(1,834)
Net earnings (loss)	296	339	(5,539)	(4,510)
Basic earnings (loss) per common share	0.04	0.05	(0.77)	(0.63)
Diluted earnings (loss) per common share	0.03	0.05	(0.77)	(0.63)
	April 30, 2000	July 31, 2000	October 31, 2000	January 31, 2001
Net sales	\$ 31,792	\$34,108	\$ 33,903	\$ 33,427
Operating income (loss)	(1,606)	(1,405)	(2,417)	(3,306)
Net earnings (loss)	(1,514)	(1,366)	(2,403)	(3,346)
Basic earnings (loss) per common share	(0.21)	(0.19)	(0.33)	(0.45)
Diluted earnings (loss) per common share	(0.21)	(0.19)	(0.33)	(0.45)
	April 30, 2001	July 31, 2001	October 31, 2001	January 31, 2002
Net sales	\$ 29,444	\$ 28,892	\$ 20,467	\$ 16,510
Operating income (loss)	(4,863)	42	(1,790)	(5,551)
Net earnings (loss)	(4,592)	86	(1,859)	(5,605)
Basic earnings (loss) per common share	(0.56)	.01	(0.17)	(0.52)
Diluted earnings (loss) per common share	(0.56)	.01	(0.17)	(0.52)

17. EMPLOYEE STOCK OWNERSHIP PLAN

On September 1, 1998, the Company established the Covista Communications, Inc. Employee Stock Ownership Plan (the "ESOP Plan"). Concurrently with the establishment of the nonleveraged ESOP Plan, the Company contributed 600,000 shares of its Common Stock to the ESOP Plan. The Common shares were recorded at fair value at the date contributed to the ESOP, totaling approximately \$12.2 million, with an offset to Unearned ESOP-Shares in the Statement of Shareholders' Equity. The ESOP Plan was to be administered through a trust by a trustee designated by the Board of Directors.

In February 1999, the Company's Board of Directors authorized the termination of the ESOP Plan. The IRS gave its approval to terminate the ESOP, and the Company officially terminated this plan during 2002, and the entire 600,000 shares of Common Stock were returned to authorized but unissued shares of Common Stock.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

18. ACCESS CHARGE SETTLEMENT

In the second quarter of fiscal 2001, the Company received a cash payment of \$1,264,483 from certain Bell Companies in settlement of a class action suit, to which the Company was a party, filed in 1992 relating to alleged overcharges by those companies. The settlement concluded the class action with the Bell Companies. The Company's portion of the settlement was not determined until the second quarter ended July 31, 2000. The cash payment was recorded as a separate line item as a reduction of costs and expenses in the quarter ended July 31, 2000.

19. RELATED PARTY TRANSACTIONS

A director of the Company serves on the Board of Directors of Capsule Communications, Inc ("Capsule") (see Note 21). Also the Chairman of the Company is the majority shareholder of Capsule. The Company purchases and sells services to Capsule. Sales to Capsule in the years ended January 31, 2002, 2001 and 2000 were approximately \$615,000, \$532,000 and \$681,000, respectively. Purchases from Capsule in the years ended January 31, 2002, 2001 and 2000 were approximately \$660,000, \$544,000 and \$291,000 respectively. All transactions were based on competitive terms obtained in arm's length transactions.

On February 1, 2001, the Board of Directors of the Company representing a majority ownership of the Company, subject to perfunctory shareholder's approval which was obtained on March 29, 2001, authorized the sale of a total of 3,500,000 shares of Common Stock to the following three persons (the "Purchasers") in the amounts indicated: Kevin Alward, 1,000,000 shares; A. John Leach, 500,000 shares; and Henry G. Luken, III, 2,000,000 shares. The purchase price for the Common Stock to be Issued to Messrs. Alward, Leach and Luken is \$2.00 per share, based on the fair market value of shares at February 1, 2001. The stock sale was consummated in April 2001 with the issuance of 3,150,000 shares of common stock. The Board of Directors authorized a decrease of 350,000 shares to be purchased by Mr. Leach.

On February 1, 2001, the Board of Directors of the Company authorized the acquisition of Blink Data Corporation, a telecommunications company, of which Kevin Alward was a principal shareholder, officer and director, for 300,000 shares of the Company's Common Stock valued at the fair market value at March 29, 2001 for total consideration of \$900,000. The transaction was completed on March 29, 2001.

On July 24, 2001 and August 9, 2001, the Company issued notes receivable to Capsule for a total principal of \$200,000 and \$300,000, respectively with interest payable at 8 $\frac{3}{4}$ % to be paid no later than one year from each note issuance.

Jay J. Miller, a Director of Covista, has provided various legal services for Covista during Fiscal 2002. In Fiscal 2002, Covista paid \$144,574 to Mr. Miller for services rendered and accrued for in Fiscal 2002. As of January 31, 2002, Covista owed Mr. Miller \$179,316. Covista believes that Mr. Miller's fees were reasonable for the services performed and were no less favorable to Covista than could have been obtained from an unrelated third party.

Leon Genet, a Director of Covista, has provided agent services for Covista through his wholly-owned Registrant, LPJ, Inc. During Fiscal 2002, LPJ, Inc. was paid commissions of \$93,066. The commissions paid to LPJ, Inc. were computed on the same basis as other independent agents retained by Covista.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

20. EMPLOYEE RECEIVABLES

Included in prepaid expenses and other current assets is a note receivable totaling \$262,500 evidencing a loan to a former employee of the Company. The note bears interest at 11.5% per annum, and is payable in monthly installments with the last payment due on January 1, 2004. The Company is in the process of negotiating collection of the note.

An additional approximate \$179,000 of employee receivables is included in prepaid expenses and other current assets. This remaining balance represents loans and payroll advances to various employees.

21. SUBSEQUENT EVENTS

- a. On February 8, 2002, the Company acquired Capsule Communications, Inc. ("Capsule") for 1,724,311 shares of Common Stock. Capsule is a telecommunications carrier providing local and long-distance telephone communications services to small and medium size business customers and residential customers generally located in the Mid-Atlantic region and in California. Capsule is a related party of which both Henry G. Luken III, the Chairman and shareholder of the Company, and Walter Anderson, a director and shareholder of the Company, each of whom were the two major shareholders in Capsule. The terms of the acquisition were that all shareholders with the exception of Henry Luken received 0.0917 shares of Covista Common Stock for each share of Capsule Common Stock, and Mr. Luken received 0.0688 shares of Covista Common Stock for each share of Capsule Common Stock. The total value of the acquisition was approximately \$11,000,000.
- b. On February 20, 2002 the Board of Directors approved the private sale of additional Common Stock of up to \$12,500,000. The investment would include a cash infusion of \$4,800,000 for debt or Common Stock, contribution of \$3,300,000 of fixed assets for debt or Common Stock and the conversion of all existing long-term debt to Common Stock at \$5.00 per share. The commitment for funding for the investment is anticipated to come primarily from the current Chairman of Covista's Board and is subject to shareholder's approval at the next annual or scheduled meeting of stockholders. As of May 14, 2002, \$2,600,000 of cash was received from the Chairman of Covista's Board in exchange for debt. Finally, the Company is planning to obtain a line of credit from a bank. If such line of credit is not obtained, the Chairman of the Board has committed to loaning \$2 million to the Company through at least the second quarter of Fiscal 2004.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
Schedule II – Valuation and Qualifying Accounts (Consolidated)

Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Period	Additions		Balance at End of Period
		Charged (Credited) to Cost and Expenses	Charged to Other Accounts-Describe	Deductions-Describe
YEAR ENDED JANUARY 31, 2002.				
Reserves and allowances deducted from asset accounts:				
Allowance for uncollectible accounts	\$ 4,075,223	\$5,382,384	\$ -	\$4,470,477(A)
Valuation reserve on deferred tax asset	\$ 7,406,540	\$ 4,618,990	\$ -	\$ -
				\$ 4,987,000
YEAR ENDED JANUARY 31, 2001.				
Reserves and allowances deducted from asset accounts:				
Allowance for uncollectible accounts	\$ 1,827,260	\$ 2,346,761	\$ -	\$ 98,798
Valuation reserve on deferred tax asset	\$ 3,702,881	\$ 3,703,659	\$ -	\$ -
				\$ 7,400,718
Allowances not deducted:				
Restructuring reserve	\$ 11,995	\$ -	\$ -	\$ 11,995
				\$ 11,995
YEAR ENDED JANUARY 31, 2000.				
Reserves and allowances deducted from asset accounts:				
Allowance for uncollectible accounts	\$ 1,230,483	\$ 1,074,916	\$ -	\$ 478,139
Valuation reserve on deferred tax asset	\$ -	\$ 3,702,881	\$ -	\$ -
				\$ 3,702,881
Allowances not deducted:				
Restructuring reserve	\$ 2,128,000	\$ (318,879)	\$ -	\$ 1,797,126
				\$ 1,797,126

(A) Represents write-off of accounts receivable against the allowance in Fiscal Year 2002.

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended: October 31, 2002

OR

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

For the transition period from _____ to _____

Commission File Number 0-2180

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

New Jersey
(State or other Jurisdiction
incorporation or organization)

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

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

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

150 Clove Road, 8th Floor, Little Falls, NJ 07424
(Former address of principal executive offices) (Zip Code)

Indicate by check mark whether Covista (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 Covista was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Class
Common Share, \$.05 par value

Outstanding at December 16, 2002
12,698,752 shares

COVISTA COMMUNICATIONS, INC.
AND SUBSIDIARIES

THIRD QUARTER REPORT ON FORM 10-Q

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ITEM 1 - FINANCIAL STATEMENTS
COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	<u>Nine Months Ended</u> <u>October 31,</u>		<u>Three Months Ended</u> <u>October 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
NET SALES	\$ 77,002,274	\$ 78,803,039	\$ 26,773,184	\$ 20,466,685
Costs and Expenses				
Cost of sales	54,341,941	64,423,267	18,185,528	15,335,763
Selling, general and administrative	30,717,399	20,990,705	9,846,672	6,921,048
Total costs and expenses	<u>85,059,340</u>	<u>85,413,972</u>	<u>28,032,199</u>	<u>22,256,811</u>
OPERATING LOSS	(8,057,066)	(6,610,933)	(1,259,015)	(1,790,126)
Other Income (Expense)				
Interest income	44,576	94,392	247	18,752
Other income	26,472	305,267		33,680
Interest expense	(388,457)	(154,783)	(133,144)	(121,256)
Total other income (expense)	<u>(317,409)</u>	<u>244,876</u>	<u>(132,897)</u>	<u>(68,824)</u>
Loss before benefit from income taxes	(8,374,475)	(6,366,057)	(1,391,912)	(1,858,950)
Benefit from income taxes	<u>511,220</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	(7,863,255)	(6,366,057)	(1,391,912)	(1,858,950)
COMPREHENSIVE LOSS	<u>\$ (7,863,255)</u>	<u>\$ (6,366,057)</u>	<u>\$ (1,391,912)</u>	<u>\$ (1,858,950)</u>
BASIC LOSS PER COMMON SHARE	<u>\$ (0.62)</u>	<u>\$ (0.64)</u>	<u>\$ (0.11)</u>	<u>\$ (0.17)</u>
DILUTED LOSS PER COMMON SHARE	<u>\$ (0.62)</u>	<u>\$ (0.64)</u>	<u>\$ (0.11)</u>	<u>\$ (0.17)</u>
DIVIDENDS PER SHARE	NONE	NONE	NONE	NONE

See notes to condensed consolidated financial statements

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, <u>2002</u> (Unaudited)	January 31, <u>2002</u> (Note)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,381,369	\$ 1,379,038
Investments available for sale	-	439,773
Notes receivable	-	500,000
Accounts receivable, net	16,937,991	10,252,837
Prepaid expenses and other current assets	<u>534,164</u>	<u>1,373,780</u>
TOTAL CURRENT ASSETS	<u>20,853,524</u>	<u>13,945,428</u>
PROPERTY AND EQUIPMENT, NET	<u>14,557,592</u>	<u>12,489,626</u>
OTHER ASSETS:		
Deferred line installation costs, net	579,519	174,785
Intangible assets, net	2,441,532	-
Goodwill, net	8,307,850	-
Other assets	<u>3,962,091</u>	<u>4,646,952</u>
	<u>15,290,992</u>	<u>4,821,737</u>
	<u>\$ 50,702,109</u>	<u>\$ 31,256,791</u>

Note: The condensed consolidated balance sheet at January 31, 2002 has been derived from the audited consolidated financial statements at that date.

See notes to condensed consolidated financial statements

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2002 <u>(Unaudited)</u>	January 31, 2002 <u>(Note)</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 1,659,583	\$ 381,405
Accounts payable	26,023,878	19,465,274
Other current and accrued liabilities	6,544,898	4,434,795
Salaries and wages payable	<u>409,441</u>	<u>991,012</u>
TOTAL CURRENT LIABILITIES	<u>34,637,801</u>	<u>25,272,486</u>
Other Long Term Liabilities	<u>2,578</u>	<u>15,466</u>
Long-Term Note Payable - Bank	2,377,029	-
Long-Term Note Payable - Shareholder	<u>7,000,000</u>	<u>4,400,000</u>
Total Notes Payable	9,377,029	4,400,000
SHAREHOLDERS' EQUITY		
Common stock	711,443	619,288
Additional paid-in-capital	38,521,038	25,650,098
Accumulated deficit	<u>(31,102,339)</u> 8,130,142	<u>(23,255,107)</u> 3,014,279
Treasury stock	(1,445,440)	(1,445,440)
Total Shareholders' Equity	<u>6,684,702</u>	<u>1,568,839</u>
	<u>\$50,702,109</u>	<u>\$ 31,256,791</u>

Note: The condensed consolidated balance sheet at January 31, 2002 has been derived from the audited consolidated financial statements at that date.

See notes to condensed consolidated financial statements.

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

(Unaudited)

	Nine Months Ended October 31,	
	<u>2002</u>	<u>2001</u>
OPERATING ACTIVITIES:		
Net loss	\$ (7,863,255)	\$ (6,366,057)
Adjustment for non-cash charges	6,918,842	5,691,632
Gain on sale of marketable securities	-	(262,234)
Changes in assets and liabilities, net of effect of Acquisitions	<u>(441,463)</u>	<u>(2,162,645)</u>
Net cash used in operating activities	<u>(1,385,876)</u>	<u>(3,099,304)</u>
INVESTING ACTIVITIES:		
Cash acquired in purchase of business	1,179,165	90,402
Proceeds on sale of marketable securities	439,773	1,141,302
Purchases of marketable securities	-	(608,369)
Purchase of prepaid network capacity	-	(4,000,000)
Purchase of property and equipment	(3,028,664)	(4,182,146)
Proceeds from sale and leaseback transaction	-	1,245,339
Additions to deferred line installation costs	<u>(404,734)</u>	<u>(32,803)</u>
Net cash used in investing activities	<u>(1,814,460)</u>	<u>(6,346,275)</u>
FINANCING ACTIVITIES:		
Sale of common stock	315,963	6,326,666
Proceeds of loan from shareholder	2,600,000	4,000,000
Proceeds from bank borrowings	3,775,000	-
Repayments of bank borrowings	<u>(1,488,296)</u>	<u>(456,972)</u>
Net cash provided by financing activities	<u>5,202,667</u>	<u>9,869,694</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,002,331	424,115
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>1,379,038</u>	<u>2,691,889</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 3,381,369</u>	<u>\$ 3,116,004</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid (received) during the period for:		
Interest	\$ 346,679	\$ 46,339
Income taxes	\$ (511,220)	\$ (16,828)
Business Acquired		
Fair Value of Assets excluding cash	\$ 21,849,458	(2,162,145)
Less Liability Assumed	(10,056,503)	
Less: Stock Consideration for business acquired	(12,972,127)	
Cash acquired	1,179,172	90,402

See notes to condensed consolidated financial statements.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of Covista Communications, Inc. (formerly Total-Tel USA Communications, Inc.) and Subsidiaries (Covista) for the fiscal year ended January 31, 2002. In the opinion of Management, all adjustments (consisting of normal recurring accruals only) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended October 31, 2002 are not necessarily indicative of the results that may be expected for the year ending January 31, 2003.

NOTE B -NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations", which is effective for Covista's fiscal years beginning February 1, 2003. SFAS 143 requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. Covista is currently assessing, but has does not expect the impact of SFAS 143 to be material to its financial position and results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long Lived Assets", which is effective for all fiscal years beginning after December 15, 2001. SFAS 144 replaces the Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS 144 requires that long-lived assets to be measured at the lower of the carrying amount or fair value, less cost to sell, whether included in continuing operations or in discontinued operations. Covista is currently assessing, but does not expect the impact of SFAS 144 to be material to its financial position and results of operations.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This statement eliminates the automatic classification of gain or loss on extinguishment of debt as an extraordinary item of income and requires that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board No. 30 "Reporting Results of Operations". This statement also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and makes various other technical corrections to existing pronouncements. This statement will be effective for Covista for the year ending January 31, 2003. The adoption of this statement is not expected to have a material effect on our results of operations or financial position.

In July 2002, the Financial Accounting Standards Board issued SFAS No.146,"Accounting for Costs Associated with Exit or Disposal Activities." SFAS No.146 will supersede Emerging Issues Task Force Issue No.94-3,"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No.146 requires that costs associated with an exit or disposal plan be recognized when incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No.146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

NOTE C – EARNINGS PER SHARE

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

	Nine-Months Ended		Three-Months Ended	
	October 31, 2002	October 31, 2001	October 31, 2002	October 31, 2001
Numerator:				
Loss available to Common Shareholders used in basic and diluted loss per Common Share	\$ (7,863,255)	\$ (6,366,057)	\$ (1,391,912)	\$(1,858,950)
Denominator:				
Weighted-average number of Common Shares used in basic loss per Common Share (1)	12,612,053	9,990,562	12,697,673	10,820,365
Effect of diluted securities: Common share options	-	-	-	-
Weighted-average number of Common Shares and diluted potential Common Shares used in diluted loss per Common Share	12,612,053	9,990,562	12,697,673	10,820,365
Basic and diluted loss per Common Share	<u>\$ (0.62)</u>	<u>\$ (0.64)</u>	<u>\$ (0.11)</u>	<u>\$ (0.17)</u>

- (1) Common Shares subject to options are not included in the calculation of diluted loss per Common Share for the nine month periods ended October 31, 2002 and 2001, and the three-month period ended October 31, 2002, as doing so would be antidilutive due to the net loss per Common Share.

NOTE D -- SEGMENT REPORTING

Covista sells telecommunications services to three distinct segments: a retail segment consisting primarily of small to medium sized businesses principally within the United States, a wholesale segment with sales to other telecommunications carriers throughout the world, and a segment that generates sales through direct mailing campaigns (KISSLD) which started in the beginning of fiscal year 2003 for residential customers in network supported areas on the East Coast.

In addition to direct costs, each segment is allocated a portion of the Covista's switch and operating expenses. The allocation of expense is based upon the minutes of use flowing through the Covista's switch network. There are no intersegment sales. Assets are held at the consolidated level and are not allocable to the operating segments. Covista evaluates performance on operating earnings of the three business segments.

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

	<u>Retail</u>	<u>Wholesale</u>	<u>KISS LD</u>	<u>Total</u>
Nine Months Ended October 31, 2002				
Net Sales	\$ 60,327,000	\$ 11,389,000	\$ 5,286,000	\$ 77,002,000
Gross margin	19,512,000	1,139,000	2,009,000	22,660,000
Operating loss	(6,365,000)	(1,128,000)	(564,000)	(8,057,000)
Nine-Months Ended October 31, 2001				
Net Sales	\$ 36,717,000	\$ 42,086,000	N/A	\$ 78,803,000
Gross margin	13,062,000	1,318,000	N/A	14,380,000
Operating loss	(4,457,000)	(2,153,000)	N/A	(6,611,000)
	<u>Retail</u>	<u>Wholesale</u>	<u>KISS LD</u>	<u>Total</u>
Three Months Ended October 31, 2002				
Net Sales	\$ 20,788,000	\$ 3,099,000	\$ 2,886,000	\$ 26,773,000
Gross margin	7,181,000	310,000	1,097,000	8,588,000
Operating loss	(1,053,000)	(45,000)	(161,000)	(1,259,000)
Three Months Ended October 31, 2001				
Net Sales	\$ 11,996,000	\$ 8,471,000	N/A	\$ 20,467,000
Gross margin	4,284,000	847,000	N/A	5,131,000
Operating loss	(1,495,000)	(295,000)	N/A	(1,790,000)

NOTE E – INCOME TAXES

For the fiscal year ended January 31, 2002, Covista established a valuation allowance against its net deferred tax asset due to the uncertainty of realizing certain tax credits and loss carryforwards. In the quarter ended October 31, 2002, Covista continued this accounting treatment and recorded a full valuation allowance against the net tax benefit arising from the quarter's net operating loss. The result is that the net deferred tax asset of approximately \$14,278,000 is fully offset by the valuation allowance and, as such, does not appear on the balance sheet. It will be reflected at net recoverable value when the net deferred tax asset can be utilized in future periods.

During the second quarter of the fiscal year 2003, Covista received a tax refund of \$511,220; which reflected a change in IRS regulations regarding net operating loss carrybacks.

NOTE F – ACQUISITION OF CAPSULE COMMUNICATIONS

On February 8, 2002, Covista completed the merger (the "Merger") of its wholly owned subsidiary CCI Acquisitions, Inc. ("CCI") with and into Capsule Communications, Inc. ("Capsule"), pursuant to the Agreement and Plan of Reorganization dated as of July 17, 2001 among Covista, CCI and Capsule (the "Merger Agreement"). As a result of the Merger, Capsule became a wholly owned subsidiary of Covista. Covista has accounted for the combination with Capsule as a purchase business combination under SFAS 141("Business Combination"). Capsule is a switch-based interexchange carrier providing long distance telephone communications services primarily to small and medium-size business customers as well as residential accounts.

The results of Capsule's operations have been included in Covista's statement of operations since the Merger Date. The total purchase price was approximately \$12.7 million and consisted of approximately 1.7 million shares of Covista's Common Stock, valued at approximately \$11.6 million determined based on the average closing market price of Covista's Common Stock at the time of acquisition, options assumed from Capsule for the purchase of 286,975 shares of Common Stock valued at approximately \$1.1 million using the Black-Scholes Valuation Model, using an exercise price of \$3.49 to \$20.10, expected lives of 0.5 to 2 years, 156% volatility, 2.69% discount rate, and Covistas' stock price of \$6.71. In addition, Covista incurred approximately \$0.3 million in acquisition expenses.

The following table summarizes the estimate of fair value of the assets acquired and liabilities assumed at the Merger Date.

Cash	\$ 1,179,172
Current assets	5,717,428
Property and equipment	3,544,981
Other assets	89,199
Intangible assets	4,190,000
Goodwill	8,307,850
Total assets acquired	<u>23,028,630</u>
Current liabilities	<u>(10,056,503)</u>
Total purchase price	<u>\$ (12,972,127)</u>

The intangible assets acquired from Capsule were identified as its business customer relationships valued at \$1,288,000, its residential customer relationships valued at \$376,000, and its agent relationships valued at \$2,526,000. These intangibles are being amortized over periods of 10 months to four years. The customer and agent relationships are amortized using double-declining method.

The unaudited pro forma information below represents the consolidated results of operations as if the merger with Capsule had occurred as of February 1, 2001 and 2002. The unaudited pro forma information has been included for comparative purposes and is not indicative of the results of operations of the consolidated Company had the merger occurred as of February 1, 2001, nor is it necessarily indicative of future results.

	Nine Months Ended		Three Months Ended	
	<u>October 31, 2002</u>	<u>October 31, 2001</u>	<u>October 31, 2002</u>	<u>October 31, 2001</u>
Total Revenue	\$ 77,815,223	\$ 107,019,236	\$ 26,773,184	\$ 29,413,441
Loss attributable to Common stockholders	(7,770,611)	(7,388,496)	(1,391,912)	(2,476,381)
Basic net loss per common share	(0.62)	(0.74)	(0.11)	(0.23)

NOTE G – SHAREHOLDER LOAN

As of October 31, 2002, Covista received loans from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of \$7,000,000. These loans will be converted to equity upon shareholder approval which approval is expected to be sought at Covista's Annual Shareholder meeting planned to be held December 19, 2002. Covista currently has the necessary votes to approve the conversion.

NOTE H – NOTES PAYABLE

Covista has a revolving \$2,000,000 credit facility with Wells Fargo Business Credit Corporation, renegotiated and amended on May 11, 2002, which expires on May 11, 2004. Interest on the revolving credit facility is currently calculated at the prime lending rate plus 2 3/4%, on a minimum loan balance of \$750,000. The loan is collateralized by accounts receivable and fixed and intangible assets of Covista. As of October 31, 2002, Covista's outstanding balance on its credit facility was \$548,076 leaving approximately \$1,451,924 available based on collateral for future borrowing under the credit facility.

The loan agreement contains covenants and restrictions, which, among other things, require maintenance of certain subjective financial performance criteria and restrict encumbrance of assets, creation of indebtedness and places limitations on annual capital expenditures. Covista was not in compliance with several of its covenants in the Loan Agreement; however, Covista received verbal waivers related to such non-compliance relevant to the fiscal period ended October 31, 2002.

On June 17, 2002, Covista entered into a term loan agreement with a major Tennessee bank. Covista has received \$3,775,000 payable monthly in 36 installments at a fixed interest rate of 4.595% for the first year and converting to 2% over LIBOR on June 17, 2003 and each year thereafter. This term loan is secured by certain of the Company's switching equipment and Certificates of Deposit provided by Covista's Chairman of the Board.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS:

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

Results of Operations

Net sales were approximately \$77,002,000 for the first nine months of the current fiscal year, a decrease of approximately \$1,801,000 or 2.2% as compared to the approximately \$78,803,000 recorded in the first nine months of the prior fiscal year. Net sales for the third quarter of the current fiscal year were approximately \$26,773,000, an increase of approximately \$6,306,000 or 30.8% as compared to the approximately \$20,467,000 recorded in the third quarter of the prior fiscal year.

Wholesale revenue for the nine-month period was approximately \$11,389,000, a decrease of approximately \$30,696,620 or 73% from the nine month period ended October 31, 2001. For the quarter ended October 31, 2002, wholesale revenue was approximately \$3,099,000, a decrease of approximately \$5,372,000 or 63.4% over the comparative quarter in the last fiscal year. Wholesale minutes sold in the nine-month period ended October 31, 2002 were approximately 148,615,000 minutes, a decrease of approximately 234,143,000 minutes or 61.1% from the nine-month period ended October 31, 2001. Wholesale minutes sold in the quarter ended October 31, 2002 were approximately 32,578,000 minutes, a decrease of approximately 49,309,000 minutes or 60.2% from the third quarter of the prior fiscal year. For the nine-month period, the decline in revenue also reflected the competitive wholesale market place and the business failure of several wholesale customers, both trends that Covista believes will continue. Competitive pressures on sales price have resulted in a 34.7% decline in the average selling rate. Covista also has attempted to limit its exposure to the business failures experienced within the industry by tightening up credit limits on all wholesale accounts. Covista has strategically reduced the Wholesale segment of its business.

Retail revenues for the nine-month period were approximately \$61,205,000, an increase of approximately \$24,488,000 or 66.7% from the nine-month period ended October 31, 2001. For the quarter ended October 31, 2002, retail revenues were approximately \$20,788,000, an approximately \$8,792,000 or 73.2% increase over the comparative quarter in the last fiscal year. Retail minutes sold in the nine-month period ended October 31, 2002 were approximately 824,279,000 minutes, an increase of approximately 353,487,000 minutes or 75% over the nine-month period ended October 31, 2001. Retail minutes sold in the quarter ended October 31, 2002 were approximately 276,585,000 minutes, an increase of approximately 109,487,000 minutes, or 65.5% over the third quarter of the prior fiscal year. The increase in volume results primarily from the acquisition of Capsule Communications. However, the decrease in revenue per minute results from the extreme pricing pressures existing within the industry. Covista has experienced a rate decrease of 7.3% for the nine-month period ended October 31, 2002 and 3.1% for the three-month period ended October 31, 2002. The extreme pricing pressures experienced in the industry is a trend that the Company believes may continue.

KissLD revenues (a product sold to retail consumers) for the nine month period were approximately \$5,286,000. KissLD is a new product offering for the current fiscal year and, therefore, does not have prior year comparatives. The total minutes sold for KissLD for the nine month period was approximately 103,472,000. For the three month period ended October 31, 2002, sales were approximately \$2,886,000 for KissLD. KissLD minutes sold for the three month period ended July 31, 2002 were approximately 57,511,000.

Cost of sales for the current nine-month period was approximately \$54,342,000, a decrease of approximately \$10,081,000 or 15.6% from the nine-month period ended October 31, 2001. These changes were favorable in relation to the 2.2% decrease in sales for the nine-month period. The decrease in cost of sales was due primarily to a decrease of approximately 234,143,000 wholesale minutes equating to approximately \$27,627,000. This savings was offset with the cost of the increase in retail volume of approximately \$17,595,000.

Cost of sales for the three-month period ended October 31, 2002 was approximately \$18,186,000, an increase of approximately \$2,850,000 or 18.6% from the third quarter of the prior fiscal year. These changes were favorable in relation to the 30.8% increase in revenues in the third quarter. The increase in cost of sales was due primarily to the Capsule acquisition.

In the normal course of business, Covista files disputes with its service providers. Covista's accounting policy is to record the invoiced amount to cost of sales, which may include disputed amounts. When the dispute is resolved and the credit is received, the amount is credited to cost of sales. Open disputes included in cost of sales for the nine-month period and the three-month period ended October 31, 2002 are approximately \$3,116,000 and \$3,007,000, respectively.

Selling, general and administrative expense for the nine-month period increased to approximately \$30,717,000, an increase of approximately \$9,727,000, or 46.3% over the nine-month period ended October 31, 2001. For the quarter ended October 31, 2002, selling, general and administrative expense was approximately \$9,847,000; an approximate \$2,926,000 or 42.2% increase over the comparative quarter in the last fiscal year.

The increase in selling, general and administrative expenses of approximately \$9,727,000 for the nine-month period was primarily due to an increase in commission expense of approximately \$4,045,000 related to the added agent commissions of the Capsule agent program, an increase in salaries of approximately \$2,906,000 related to the addition of Capsule salaries and expansion of the Tennessee call center staff; an increase in marketing expense of approximately \$2,731,000 related to the KissLD marketing program, an increase in office expense of approximately \$1,265,000 due to the addition of the Tennessee call center, the addition of Capsule general and administrative costs, and the one-time relocation costs of the corporate headquarters; and other miscellaneous selling, general and administrative expenses of \$130,000. This was partially offset by a reduction in bad debt expense of approximately \$1,349,000 for the same period.

For the three-month period ended October 31, 2002, the net increase in selling, general and administrative expenses of approximately \$2,926,000 was comprised primarily of increase in commission expense of approximately \$1,459,000 from the acquisition of the Capsule agent program, an increase in office expense of approximately \$626,000 due to the one time relocation costs of the corporate headquarters to downtown Chattanooga, TN, and the addition of Capsule G & A, an increase in salaries of approximately \$436,000 from the addition of Capsule salaries, an increase in benefits of approximately \$231,000, an increase in equipment rental of approximately \$195,000, an increase in franchise taxes of approximately \$127,000, an increase in postage of approximately \$88,000, increase in marketing expense of approximately \$84,000, and other miscellaneous expenses of \$8,000. This was partially offset by a reduction in bad debt expense of approximately \$172,000 and a reduction in legal expense of \$156,000.

For the reasons described above, the operating loss for the nine-month period ended October 31, 2002 was approximately \$8,057,000, an increase of approximately \$1,448,000 from the nine-month period ended October 31, 2001. The operating loss for the three-month period ended October 31, 2002 was approximately \$1,259,000, an improvement of approximately \$531,000 over the prior year's three-month period ended October 31, 2001.

Total other expense, net, for the current nine-month period was approximately \$317,000 as compared to approximately \$245,000 of total other income, net, recorded in the prior year nine-month period. The approximately \$562,000 change for the nine-month period is primarily due to the reduction in sale of marketable securities of approximately \$262,000, offset by an increase in interest expense of approximately \$234,000 and a reduction in interest income of approximately \$50,000. Total other expense, net, for the current fiscal quarter was approximately \$133,000 as compared to approximately \$69,000 of total other expense, net, recorded in the comparable period during the prior fiscal year. This change was due to an increase in interest expense.

Basic and diluted loss per Common Share was \$0.62 per share for the current nine-month period ended October 31, 2002 as compared to \$0.64 loss per share for the nine-months ended October 31, 2001. Basic and diluted loss per Common Share was \$0.11 per share for the current three-month period ended October 31, 2002 as compared to \$0.17 loss per Common Share for the three-months ended October 31, 2001.

Liquidity and Capital Resources

At October 31, 2002, Covista had a working capital deficit of approximately \$13,784,000, an increase of deficit of approximately \$2,457,000 as compared to January 31, 2002. The ratio of current assets to current liabilities at October 31, 2002 was 0.60:1, as compared to the ratio of 0.55:1 at January 31, 2002. The increase in the working capital deficit at October 31, 2002 was primarily attributable to an increase in accounts payable of approximately \$6,559,000; a decrease in prepaid expenses and other current assets of approximately \$840,000 and an increase in the current portion of long term debt of approximately \$1,278,000. This was offset by an increase in accounts receivable of approximately \$6,685,000; an increase in cash and cash equivalents of approximately \$2,002,000; a decrease in investments available for sale of approximately \$440,000; and an increase in accrued liabilities of approximately \$2,110,000.

The increase in cash of approximately \$2,002,000 was the result primarily of proceeds from the sale of Common Stock of \$315,963; proceeds from a long-term loan received from a major shareholder of \$2,600,000; the proceeds from the sale of marketable securities of approximately \$439,773; the proceeds of a note payable of approximately \$3,775,000 and cash acquired in the purchase of businesses of approximately \$1,179,165. These increases were offset by cash used in operations of approximately \$1,386,000; and payment of line installation costs of approximately \$405,000, purchases of Property, Plant, and Equipment of approximately \$3,029,000 and repayment of bank borrowings of approximately \$1,488,000.

On February 20, 2002, Covista's Board of Directors approved the private sale of additional Common Stock of up to \$12,500,000. The investment includes a conversion into common stock, of \$6,800,000 of debt, contribution of \$3,500,000 of fixed assets and \$2,200,000 of cash to be received at the rate of \$2.867 per share, which was the closing price for the Common Stock for 30 trading days prior to November 1, 2002, as authorized by the Board. The commitment for funding for the investment and the conversion of the indebtedness is from the current Chairman of Covista's Board or his designee's and is subject to shareholder's approval at the next Annual Meeting, to be held on December 19, 2002. Additionally, Covista has received a commitment from W. Thorpe McKenzie, a nominee for election as a director, to purchase an additional 500,000 shares at \$2.867 per share for a total of approximately \$1,434,000. Finally, the company is seeking a line of credit from a bank. If such line of credit were not obtained, the Chairman of the Board has committed to loaning \$2 million to the Company through at least the second quarter of fiscal 2004.

Capital Expenditures

Capital expenditures for the nine-month period ended October 31, 2002 were approximately \$3,196,207. These expenditures were financed principally from the proceeds of a long term loan received from a major shareholder. Planned spending for the balance of the fiscal year ending January 31, 2003, includes approximately \$100,000 for additional switches and equipment to be installed as part of Covista's network expansion. These expenditures are planned to be financed primarily through vendor financing, sale and leaseback transactions, and additional lines of credit, which Covista intends to negotiate with its current lender or other sources. In addition, Covista may seek to sell privately, additional equity or debt securities. However, there can be no assurance that Covista shall be able to obtain such financing or, if available, the terms thereof shall be favorable.

Prepaid Network Capacity

On July 2, 2001, Covista received a loan from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of \$4,000,000. This loan will be converted to equity upon shareholder approval which approval is expected to be sought at Covista's Annual Shareholder meeting to be held December 19, 2002. Covista currently has the necessary votes to approve the conversion. The proceeds of the loan were used to purchase a 10-year commitment for approximately 2.8 billion DS-0 channel miles of telecommunications network capacity from an unaffiliated party. The unaffiliated party has filed for Chapter 11 reorganization; however, as of the date of this report, is continuing to perform under the agreement, and, therefore, management does not believe that this asset is impaired. However, management has been unable to determine if this carrier's bankruptcy will adversely affect the carrier's ability to fulfill its' obligation to Covista under the prepaid network capacity agreement.

As of October 31, 2002, Covista has used 63 million DS-0 channel miles of telecommunications network capacity against the 2.8 billion DS-0 total prepaid network capacity, of which \$400,000 has been classified as a current asset and based on anticipated usage in the next 12 months. The remainder of the prepaid capacity amount of approximately \$ 3,200,000 is included in other assets.

Accounts Receivable and Credit Risk

Accounts receivable subject Covista to the potential for credit risk with customers in the retail and wholesale segments. To reduce credit risk, Covista performs ongoing evaluations of its customer's financial condition and except in situations where the risk warrants it, Covista does not require collateral. Accounts receivable of approximately \$16,938,000, net of the reserve for uncollectible accounts totaling approximately \$6,833,000, represents approximately 33% of the total assets of Covista. No one customer accounts for greater than eight percent of the total revenues and receivables. In the wholesale segment, which contains Covista's largest customers, Covista has been able to ameliorate credit risk by using reciprocal arrangements with the customers, which are also Covista's suppliers, to offset outstanding receivables. Covista has historically maintained a better than three percent ratio of bad debts to revenues. For the nine-month period ended October 31, 2002, this ratio was 4%. Covista also measures net accounts receivable turnover (as measured in days sales outstanding). For the periods ended October 31, 2002 and 2001 days sales outstanding were 59.3 days and 58.5 days respectively.

Related Party Transactions

Jay J. Miller, a Director of Covista, has provided various legal services for Covista in Fiscal 2003. In the third quarter, Fiscal 2003, Covista accrued \$13,960 to Mr. Miller for services rendered and accrued for in Fiscal 2003. As of October 31, 2002, Covista owed Mr. Miller \$26,100.

Leon Genet, a Director of Covista, has provided agent services for Covista through his wholly-owned Registrant, LPJ, Inc. During the third quarter, Fiscal 2003, LPJ, Inc. was paid commissions of \$24,155. The commissions paid to LPJ, Inc. were computed on the same basis as other independent agents retained by Covista.

Covista has entered into three lease agreements for office and switch space in Chattanooga, Tennessee, with Henry G. Luken III, Chairman of the Board and a principal shareholder of Covista. Each lease carries a term of five years. The leases provide for annual rent of \$154,986 for fiscal year 2003; \$258,290 for fiscal year 2004; \$293,336 for fiscal year 2005 and for both fiscal years of 2006 and 2007 the annual rent will be \$300,000 and annually adjusted for the Consumer Price Index. For the third quarter FY 2003 Covista has paid Henry G. Luken III \$21,600 for rent of office space.

As of October 31, 2002, Covista received loans from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of \$7,000,000. These loans will be converted to equity upon shareholder approval which approval is expected to be provided at Covista's Annual Shareholder meeting scheduled to be held December 19, 2002.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

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

Deferred Line Installation Costs

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

Long-Lived Assets

Covista accounts for the impairment of long-lived assets and for long-lived assets to be disposed of by evaluating the carrying value of its long-lived assets in relation to the operating performance and future undiscounted cash flows of the underlying businesses annually and when indications of impairment are present. Long-lived assets to be disposed of, if any, are evaluated in relation to the net realizable value. If impairment is indicated, the amount of the impairment is typically calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on Covista's weighted average cost of capital. If the carrying value of the asset exceeds the fair value of the asset, the difference will be charged to the results of operations in the period in which the impairment occurred. Based on Covista's analysis of future undiscounted cash flow, which are in excess of the carrying value of its long-lived assets, there does not appear to be an impairment as of October 31, 2002.

On July 2, 2001, Covista received a loan from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of \$4,000,000. This loan will be converted to equity upon shareholder approval which approval is expected to be provided at Covista's Annual Shareholder meeting planned to be held December 19, 2002.

The proceeds of the loan were used to purchase a 10-year commitment for approximately 2.8 billion DS-0 channel miles of telecommunications network capacity from an unaffiliated party. The unaffiliated party has filed for Chapter 11 reorganization; however, as of the date of this report, is continuing to perform under the agreement, and therefore, management does not believe that this asset is impaired. However, management has been unable to determine if this carrier's bankruptcy will impact the carrier's ability to fulfill its' obligation to Covista under the prepaid network capacity agreement.

As of October 31, 2002, Covista has used 63 million DS-0 channel miles of telecommunications network capacity against the 2.8 billion total prepaid network capacity, of which \$400,000 has been classified as a current asset and based on anticipated usage in the next 12 months. The remainder of the prepaid capacity amount of approximately \$ 3,200,000 is included in other assets.

Goodwill

Goodwill consists of the excess purchase price over the fair value of identifiable net assets of acquired businesses. Goodwill added subsequent to January 1, 2002 is not being amortized in accordance with SFAS142. The carrying value of goodwill is evaluated for impairment on an annual basis. Management also reviews goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of goodwill may be impaired. If it is determined that an impairment in value has occurred, goodwill will be written down to the present value of the expected future operating cash flows to be generated by the respective reporting unit.

Vendor Disputes

In the normal course of business, Covista files disputes with its service providers. Covista's accounting policy is to record the invoiced amount to cost of sales, which may include disputed amounts. When the dispute is resolved and the credit is received, the amount is credited to cost of sales. Open disputes included in cost of sales for the nine-month period and the three-month period ended October 31, 2002, are approximately \$3,116,000 and \$3,007,000, respectively.

Intangible Assets

Intangible assets are carried at cost, less accumulated amortization, and are amortized on a double-declining or straight-line basis over their expected lives based upon managements' expectation regarding the timing of future realization.

Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. As Covista holds no significant marketable securities at October 31, 2001, the exposure to interest rate risk relating to marketable securities no longer exists. Covista does not hold any derivatives related to its interest rate exposure. Covista also maintains long-term debt at fixed rates. Due to the nature and amounts of Covista's note payable, an immediate 10% change in interest rates would not have a material effect in Covista's results of operations over the next fiscal year. Covista's exposure to adverse changes in foreign exchange rates is also immaterial to the consolidated statements as a whole.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

ITEMS 1 - 5 Not applicable

ITEM 6 Exhibits and Reports on Form 8-K

No reports on Form 8-K were filed in the period

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

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

Date: December 16, 2002

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

I, Thomas P. Gunning., certify that;

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

Date: December 16, 2002

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

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

In connection with the Quarterly Report of Covista Communications, Inc. on Form 10-Q for the period ending October 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, A. John Leach, Jr., President and CEO of Covista Communications, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that;

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

Date: December 16, 2002

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

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

In connection with the Quarterly Report of Covista Communications, Inc. on Form 10-Q for the period ending October 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas P. Gunning, CFO of Covista Communications, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that;

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

Date: December 16, 2002

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

SIGNATURES

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

COVISTA COMMUNICATIONS, INC.
(Registrant)

Date: December 16, 2002

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

Date: December 16, 2002

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

EXHIBIT E - PROPOSED TARIFF

COVISTA, INC.
721 Broad Street, 2nd Floor
Chattanooga, Tennessee 37402

South Dakota Tariff Number 2
Original Page 1

**RULES, REGULATIONS, AND
SCHEDULE OF RATES AND CHARGES
APPLICABLE TO END USERS**

LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

**FURNISHED BY
COVISTA, INC.
WITHIN THE STATE OF SOUTH DAKOTA**

Issued:
Issued by:

A. John Leach, President
Covista, Inc.
721 Broad Street, 2nd Floor
Chattanooga, Tennessee 37402

Effective:

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Chattanooga, Tennessee 37402

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CHECK SHEET

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EXPLANATION OF SYMBOLS

The following symbols shall be used in this tariff for the purpose indicated below:

- (C) To signify changed regulation.
- (D) To signify discontinued rate and regulation.
- (I) To signify increased rate.
- (M) To signify a move in the location of text.
- (N) To signify new rate or regulation.
- (R) To signify reduced rate.
- (S) To signify reissued matter.
- (T) To signify a change in text but no change in rate or regulation.

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APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the local exchange telecommunications services provided by Covista, Inc. to customers within the state of South Dakota.

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SECTION 1.0 - DEFINITIONS

For the purpose of this tariff, the following definitions will apply:

Access Line - An arrangement which connects the Customer's location to a switching center or point of presence.

Account Codes - Optional, Customer-defined digits that allow the Customer to identify the individual user, department or client associated with a call. Account Codes appear on the Customer bill.

Advance Payment - Part or all of a payment required before the start of service.

Authorized User - A person, firm, corporation, or any other entity authorized by the Customer to communicate utilizing the Company's service.

Business - A class of service provided to individuals engaged in business, firms, partnerships, corporations, agencies, shops, works, tenants of office buildings, and individuals practicing a profession or operating a business who have no offices other than their residences and where the use of the service is primarily or substantially of a business, professional or occupational nature.

Commission - South Dakota Public Utilities Commission.

Company or Carrier - Covista, Inc., unless otherwise clearly indicated by the context.

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

Deposit - Refers to a cash or equivalent of cash security held as a guarantee for payment of the charges.

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DID Trunk - A form of local switched access that provides the ability for an outside party to call an internal extension directly without the intervention of the Company operator.

Dial Pulse (or "DP") - The pulse type employed by rotary dial station sets.

Dual Tone Multi-Frequency (or "DTMF") - The pulse type employed by tone dial station sets.

End User - Any person, firm, corporation, partnership or other entity which uses the services of the Company under the provisions and regulations of this tariff. The End User is responsible for payment unless the charges for the services utilized are accepted and paid for by another Customer.

End Office - With respect to each NPA-NXX code prefix assigned to the Company, the location of the Company's "end office" for purposes of this tariff shall be the point of interconnection associated with that NPA-NXX code in the Local Exchange Routing Guide ("LERG"), issued by Bellcore.

Hearing Impaired - Those persons with communication impairments, including those hearing impaired, deaf, deaf/blind, and speech impaired persons who have an impairment that prevents them from communicating over the telephone without the aid of a telecommunications device for the deaf.

Hunting - Routes a call to an idle station line in a prearranged group when the called station line is busy.

In-Only - A service attribute that restricts outward dial access and routes incoming calls to a designated answer point.

IXC or Interexchange Carrier - A long distance telecommunications services provider.

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LATA - A Local Access and Transport Area established pursuant to the Modification of Final Judgement entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4.

LEC - Local Exchange Company

Minimum Point of Presence ("MPOP") - The main telephone closet in the Customer's building.

Monthly Recurring Charges - The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

Multi-Frequency or ("MF") - An inter-machine pulse type used for signaling between telephone switches, or between telephone switches and PBX/key systems.

Non-Recurring Charge ("NRC") - The initial charge, usually assessed on a one-time basis, to initiate and establish service.

Other Telephone Company - An Exchange Telephone Company, other than the Company.

PBX - Private Branch Exchange

Premises - A building or buildings on contiguous property.

Recurring Charges - The monthly charges to the Customer for services, facilities and equipment which continue for the agreed upon duration of the service.

Residence or Residential - A class of service furnished to a Customer at a place of dwelling where the actual or obvious use is for domestic purposes.

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Service Commencement Date - The first day following the date on which the Company notifies the Customer that the requested service is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order and this tariff, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and Customer may mutually agree on a substitute Service Commencement Date.

Service Order - The written request for services executed by the Customer and the Company in the format devised by the Company. The signing of an Order by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff, but the duration of the service is calculated from the Service Commencement Date.

Telephone Company - Used throughout this tariff to mean Covista, Inc. unless clearly indicated otherwise by the text.

TBD - To Be Determined.

Two Way - A service attribute that includes outward dial capabilities for outbound calls and can also be used to carry inbound calls to a central point for further processing.

Usage Based Charges - Charges for minutes or messages traversing over local exchange facilities.

User or End User - A Customer, Joint User, or any other person authorized by a Customer to use service provider under this tariff.

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SECTION 2.0 - RULES AND REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish communications service pursuant to the terms of this tariff in connection with one-way and/or two-way information transmission originating from points within the State of South Dakota, and terminating within a local calling area as defined herein.

The Company is responsible under this tariff only for the services and facilities provided hereunder, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services, or to communicate with its own Customers.

2.1.2 Shortage of Equipment or Facilities

- (A) The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control.
- (B) The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company, (Cont'd.)

2.1.3 Terms and Conditions

- (A) Service is provided on the basis of a minimum period of at least six months, 24 hours per day. For the purpose of computing charges in this tariff, a month is considered to have thirty (30) days.
- (B) Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.
- (C) Except as otherwise stated in the tariff, at the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party upon thirty (30) days written notice. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the service order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.
- (D) Service may be terminated upon written notice to the Customer if:
 - (1) the Customer is using the service in violation of this tariff; or
 - (2) the Customer is using the service in violation of the law.
- (E) This tariff shall be interpreted and governed by the laws of the State of South Dakota without regard for its choice of laws provision.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company, (Cont'd.)

2.1.3 Terms and Conditions, (cont'd.)

- (F) Any Other Telephone Company may not interfere with the right of any person or entity to obtain service directly from the Company. No person or entity shall be required to make any payment, incur any penalty, monetary or otherwise, or purchase any services in order to have the right to obtain service directly from the Company.
- (G) To the extent that either the Company or any Other Telephone Company exercises control over available cable pairs, conduit, duct space, raceways, or other facilities needed by the other to reach a person or entity, the party exercising such control shall make them available to the other on terms equivalent to those under which the Company makes similar facilities under its control available to its Customers. At the reasonable request of either party, the Company and the Other Telephone Company shall jointly attempt to obtain from the owner of the property access for the other party to serve a person or entity.
- (H) The Company hereby reserves its rights to establish service packages specific to a particular Customer. These contracts may or may not be associated with volume and/or term discounts.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability

- (A) Except as otherwise stated in this section, the liability of Carrier for damage arising out of the furnishing of its services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services shall be determined by South Dakota Statute Sections 49-13-1 and 49-13-1.1.
- (B) Except for the extension of allowances to the Customer for interruptions in service in Section 2.7, Carrier shall not be liable to a Customer or third party for any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive damages, including, but not limited to, loss of revenue or profits, including but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service of any failure in or breakdown of facilities associated with the service except as determined pursuant to SDCL 49-13-1 and 49-13-1.1.
- (C) The liability of Carrier for errors in billing that result in overpayment by the customer shall be limited to a credit equal to the dollar amount erroneously billed, or in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability (Cont'd.)

- (D) The Company shall be indemnified and saved harmless by the Customer from and against all loss, liability, damage and expense, including reasonable counsel fees, due to:
- (1) Any act or omission of: (a) the Customer, (b) any other entity furnishing service, equipment or facilities for use in conjunction with services or facilities provided by the Company; or (c) common carriers or warehousemen, except as contracted by the Company;
 - (2) Any delay or failure of performance or equipment due to causes beyond the Company's control, including but not limited to, acts of God, fires, floods, earthquakes, hurricanes, or other catastrophes; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against the Company; unavailability, failure or malfunction of equipment or facilities provided by the Customer or third parties; and any law, order, regulation or other action of any governing authority or agency thereof;
 - (3) Any unlawful or unauthorized use of the Company's facilities and services;
 - (4) Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the material transmitted by means of Company-provided facilities or services; or by means of the combination of company-provided facilities or services;
 - (5) Breach in the privacy or security of communications transmitted over the Company's facilities, which is not the result of the negligence of the Company;

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability (Cont'd.)

(D) (cont'd)

- (6) Changes in any of the facilities, operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth in paragraph (A) of this Subsection 2.1.4.
- (7) Defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof;
- (8) Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected to Carrier's facilities;
- (9) Any noncompletion of calls due to network busy conditions;
- (10) Any calls not actually attempted to be completed during any period that service is unavailable;
- (11) Breach in the privacy or security of communications transmitted over Carrier's facilities, which is not the result of the negligence of the Company;

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Limitations on Liability (Cont'd.)

- (E) The Company does not guarantee nor make any warranty with respect to installations provided for use in an explosive atmosphere.
- (F) Failure by the Company to assert its rights pursuant to one provision of this tariff does not preclude the Company from asserting its rights under other provisions.

2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but may affect Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company, (Cont'd.)

2.1.6 Provision of Equipment and Facilities

- (A) The Company shall use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer may not nor may the Customer permit others to rearrange, disconnect, remove, attempt to repair, or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.
- (B) The Company may substitute, change or rearrange any equipment or facility at any time and from time to time, but shall not thereby alter the technical parameters of the service provided by the Customer.
- (C) Equipment the Company provides or installs at the Customer Premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which the equipment is provided.
- (D) Except as otherwise indicated, Customer provided station equipment at the Customer's premises for use in connection with the service shall be so constructed, maintained and operated as to work satisfactorily with the facilities of the Company.
- (E) The Company shall not be responsible for the installation, operation, or maintenance of any Customer provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities. Subject to this responsibility, the Company shall not be responsible for:
 - (1) the through transmission of signals by Customer provided equipment or for the quality of, or defects in, such transmission; or
 - (2) the reception of signals by Customer-provided equipment; or
 - (3) network control signaling where such signaling is performed by Customer-provided network control signaling equipment.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company, (Cont'd.)

2.1.7 Non-Routine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.1.8 Special Construction

Subject to the agreement of the Company and to all of the regulations contained in this tariff, special construction or facilities may be undertaken on a reasonable efforts basis at the request of the Customer. Special construction is construction undertaken:

- (A) where facilities are not presently available, and there is no other requirement for the facilities so constructed;
- (B) of a type other than that which the Company would normally utilize in the furnishing of its services;
- (C) over a route other than that which the Company would normally utilize in the furnishing of its services;
- (D) in a quantity greater than that which the company would normally construct;
- (E) on an expedited basis;
- (F) on a temporary basis until permanent facilities are available;
- (G) involving abnormal costs; or
- (H) in advance of its normal construction.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company, (Cont'd.)

2.1.9 Ownership of Facilities

Title to all facilities provided in accordance with this tariff remains in the Company, its partners, agents, contractors or suppliers.

2.2 Prohibited Uses

2.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.

2.2.2 The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and the South Dakota Public Utilities Commission's regulations, policies, orders, and decisions.

2.2.3 The Company may block any signals being transmitted over its Network by Customers which cause interference to the Company or other users. Customer shall be relieved of all obligations to make payments for charges relating to any blocked Service and shall indemnify the Company for any claim, judgement or liability resulting from such blockage.

2.2.4 A Customer, joint user, or authorized user may not assign, or transfer in any manner, the service or any rights associated with the service without the written consent of the Company. The Company will permit a Customer to transfer its existing service to another entity if the existing Customer has paid all charges owed to the Company for regulated communications services. Such a transfer will be treated as a disconnection of existing service and installation of new service, and non-recurring installation charges as stated in this tariff will apply.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.3 Obligations of the Customer

2.3.1 General

The Customer shall be responsible for:

- (A) the payment of all applicable charges pursuant to this tariff;
- (B) damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;
- (C) providing at no charge, as specified from time to time by the Company, any needed equipment, space and power to operate Company facilities and equipment installed on the premises of the Customer, and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;
- (D) obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduit necessary for installation of fiber optic cable and associated equipment used to provide Communications Services to the Customer from the cable building entrance or property line to the location of the equipment space described in Section 2.3.1(C). Any and all costs associated with the obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company provided facilities, shall be borne entirely by, or may be charged by the Company, to the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.3 Obligations of the Customer

2.3.1 General (cont'd.)

- (E) providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g., friable asbestos) prior to any construction or installation work;
- (F) complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of Company facilities and equipment in an Customer premises or the rights-of-way for which Customer is responsible under Section 2.3.1(D); and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;
- (G) not creating or allowing to be placed any liens or other encumbrances on the Company's equipment or facilities; and
- (H) making Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.3 Obligations of the Customer (Cont'd.)

2.3.2 Liability of the Customer

- (A) Carrier shall be indemnified, defended and held harmless by the Customer or end user from and against any and all claims, loss, demands, suits, expense, or other action or any liability whatsoever, including attorney fees, whether suffered, made, instituted, or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage, or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any Carrier or Customer equipment or facilities or service provided by Carrier.
- (B) Carrier does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere. Carrier shall be indemnified, defended and held harmless by the Customer from and against any and all claims, loss, demands, suits, or other action, or any liability whatsoever, including attorney fees, whether suffered, made, instituted or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage, or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any equipment or facilities or the service.
- (C) Notwithstanding any other provision of this tariff and pursuant to S.D. Codified Laws SS 49-13-1 and 49-13-1.1, any person claiming to be damaged by Carrier may either make complaint to the Commission or may bring suit on his own behalf for the recovery of damages in any court of competent jurisdiction in South Dakota, but no person may pursue both remedies at the same time.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.4 Customer Equipment and Channels

2.4.1 General

A user may transmit or receive information or signals via the facilities of the Company. The Company's services are designated primarily for the transmission of voice-grade telephonic signals, except as otherwise stated in this tariff. A user may transmit any form of signal that is compatible with the Company's equipment, but the Company does not guarantee that its services will be suitable for purposes other than voice-grade telephonic communication except as specifically stated in this tariff.

2.4.2 Station Equipment

- (A) Terminal equipment of the user's premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the user. The user is responsible for the provision of wiring or cable to connect its terminal equipment to the Company MPOP.
- (B) The Customer is responsible for ensuring that Customer-provided equipment connected to Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense, subject to prior Customer approval of the equipment expense.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.4 Customer Equipment and Channels (Cont'd.)

2.4.3 Interconnection of Facilities

- (A) Local Traffic Exchange provides the ability for another local exchange provider to terminate local traffic on the Company's network. In order to qualify for Local Traffic Exchange the call must: (a) be originated by an end user of a company that is authorized by the South Dakota Public Utilities Commission to provide local exchange service; (b) originate and terminate within a local calling area of the Company.
- (B) Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Communications Services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.
- (C) Communications Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers which are applicable to such connections.
- (D) Facilities furnished under this tariff may be connected to Customer provided terminal equipment in accordance with the provisions of this tariff. All such terminal equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all user-provided wiring shall be installed and maintained in compliance with those regulations.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.4 Customer Equipment and Channels (Cont'd.)

2.4.4 Inspections

- (A) Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with the requirements set forth in Section 2.4.2(B) for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.
- (B) If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.
- (C) If harm to the Company's network, personnel or services is imminent, the Company reserves the right to shut down Customer's service immediately, with no prior notice required.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.5 Customer Deposits and Advance Payments

2.5.1 Advance Payments

The Company does not collect advance payments from Customers.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.5 Customer Deposits and Advance Payments (Cont'd.)

2.5.2 Deposits

The Company does not require deposits from Customers.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.6 Payment Arrangements

2.6.1 Payment for Services

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer.

The Customer is responsible for the payment of federal excise taxes, state and local sales and use taxes and similar taxes imposed by governmental jurisdictions, all of which shall be separately designated on the Company's invoices. The Company will not separately charge for the South Dakota gross receipts tax on the Company's invoice for local services. Any taxes imposed by a local jurisdiction (e.g., county and municipal) will only be recovered from those Customers residing in the affected jurisdictions.

Certain telecommunications services, as defined in the South Dakota Revised Code, are subject to state sales tax at the prevailing tax rates, if the services originate, or terminate in South Dakota, or both, and are charged to a subscriber's telephone number or account in South Dakota.

2.6.2 Billing and Collection of Charges

The Customer is responsible for payment of all charges incurred by the Customer or other users for services and facilities furnished to the Customer by the Company.

- (A) Non-recurring charges are due and payable within thirty (30) days after the date the invoice is mailed to the Customer by the Company.
- (B) The Company shall present invoices for recurring charges monthly to the Customer and recurring charges shall be due and payable within thirty (30) days after the date the invoice is mailed to the Customer by the Company. When billing is based upon Customer usage, usage charges will be billed monthly for the preceding billing period.
- (C) When service does not begin on the first day of the month, or end of the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have thirty (30) days.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.6 Payment Arrangements (Cont'd.)

2.6.2 Billing and Collection of Charges (Cont'd.)

- (D) Billing of the Customer by the Company will begin on the Service Commencement Date, which is the day on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in this tariff or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.
- (E) If any portion of the payment is not received by the Company within 30 days of receipt of this bill, or if any portion of the payment is received by the Company in funds which are not immediately available upon presentment, then a late payment charge of 1.5% per month shall be due to the Company. A late payment charge is not applicable to subsequent rebilling of any amount to which a late payment charge has already been applied. Late payment charges are to be applied without discrimination.
- (F) the Customer should notify the Company of any disputed items on an invoice within one hundred eighty (180) days of receipt of the invoice. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the South Dakota Public Utilities Commission in accordance with the Commission's rules and procedure. The address of the Company and the Commission is as follows:

Covista, Inc.	South Dakota PUC
721 Broad Street, 2nd Floor	State Capitol Building
Chattanooga, Tennessee 37402	500 East Capitol Ave.
(800) 805-1000	Pierre, South Dakota 57501
	800-332-1782

- (G) If service is disconnected by the Company (in accordance with Section 2.6.3 following) and later re-installed, re-installation of service will be subject to all applicable installation charges.

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SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.6 Payment Arrangements (Cont'd.)

2.6.3 Discontinuance of Service for Cause

The Company may discontinue service for the following reasons provided in this Section 2.6.3. Customers will be provided five (5) days written notice prior to discontinuance unless otherwise indicated.

Upon the Company's discontinuance of service to the Customer under Section 2.6.3(A) or 2.6.3(B), the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff, may declare all future monthly and other charges which would have been payable by the Customer during the remainder of the term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent).

- (A) Upon nonpayment of any amounts owing to the Company, the Company may discontinue or suspend service without incurring any liability. No basic residential service shall be disconnected for nonpayment until at least 29 days from the date of the bill and only following proper written notification. Non-payment of disputed charges by Customer does not constitute discontinuance or suspension of service. Disputed charges will be due after Customer and Company resolve dispute.
- (B) Upon violation of any of the other material terms or conditions for furnishing service the Company may, discontinue or suspend service without incurring any liability if such violation continues during that period.
- (C) Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.
- (D) Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law, the Company may immediately discontinue or suspend service without incurring any liability.
- (E) Upon any governmental prohibition or governmental required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.

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SECTION 2.0 – RULES AND REGULATIONS, (CONTINUED)

2.6 Payment Arrangements, (Continued)

2.6.3 Discontinuance of Service for Cause

- (F) Without notice in the event of fraudulent use of the Company's network. The Customer will be liable for all related costs. The Customer will also be responsible for payment of any reconnection charges.
- (G) Without notice in the event of Customer use of equipment or services in such a manner as to adversely affect the Company's service to others.
- (H) Without notice in the event of tampering with the equipment or services furnished by the Company.

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SECTION 2.0 – RULES AND REGULATIONS, (CONTINUED)

2.6 Payment Arrangements, (Continued)

2.6.4 Notice to Company for Cancellation of Service

Customers desiring to terminate service shall provide the Company thirty (30) days notice of desire to terminate service. If special construction is involved, the required notice shall be written.

2.6.5 Cancellation of Application for Service

- (A) Where the Company permits the Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.
- (B) Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs the Company incurred, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service begun.
- (C) Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred, less net salvage, may apply. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.
- (D) The special charges described in 2.6.5(A) through 2.6.5(C) will be calculated and applied on a case-by-case basis.

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SECTION 2.0 – RULES AND REGULATIONS, (CONTINUED)

2.6 Payment Arrangements, (Continued)

2.6.6 Changes in Services Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

2.6.7 Bad Check Charge

A service charge of \$20.00 will be assessed in accordance with South Dakota law for all checks returned by a bank or other financial institution for: Insufficient or uncollected funds, closed account, apparent tampering, missing signature or endorsement, or any other insufficiency or discrepancy necessitating return of the instrument at the discretion of the drawee bank or other financial institution.

2.7 Allowances for Interruptions in Service

2.7.1 General

- (A) A credit allowance will be given when service is interrupted, except as specified in Section 2.7.2 following. A service is interrupted when it becomes inoperative to the Customer, e.g., the Customer is unable to transmit or receive, because of a failure of a component furnished by the Company under this tariff.
- (B) An interruption period begins when the Customer reports a service, facility or circuit to be inoperative and, if necessary, releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative.

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SECTION 2.0 – RULES AND REGULATIONS, (CONTINUED)

2.7 Allowances for Interruptions in Service, (Continued)

2.7.1 General (Continued)

- (C) If the Customer reports a service, facility or circuit to be interrupted but declines to release it for testing and repair, or refuses access to its premises for test and repair by the Company, the service, facility or circuit is considered to be impaired but not interrupted. No credit allowances will be made for a service, facility or circuit considered by the Company to be impaired.
- (D) The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.

2.7.2 Limitations of Allowances

No credit allowance will be made for any interruption in service:

- (A) Due to the negligence of or noncompliance with the provisions of this tariff by any person or entity other than the Company, including but not limited to the Customer;
- (B) Due to the failure of power, equipment, systems, connections or services not provided by the Company;
- (C) Due to circumstances or causes beyond the reasonable control of the Company;
- (D) During any period in which the Company is not given full and free access to its facilities and equipment for the purposes of investigating and correcting interruptions;

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SECTION 2.0 – RULES AND REGULATIONS, (CONTINUED)

2.7 Allowances for Interruptions in Service, (Continued)

2.7.2 Limitations of Allowances

- (E) A service will not be deemed to be interrupted if a Customer continues voluntarily make use of the service. If the service is interrupted, the Customer can get a service credit, use another means of communications provided by the Company (pursuant to Section 2.7.3), or utilize another service provider:
- (F) During any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;
- (G) That occurs or continues due to the Customer's failure to authorize replacement of any element of special construction.

2.7.3 Use of Another Means of Communications

If the Customer elects to use another means of communications during the period of interruption, the Customer must pay the charges for the alternative service used.

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SECTION 2.0 – RULES AND REGULATIONS, (CONTINUED)

2.7 Allowances for Interruption in Service, (Continued)

2.7.4 Application of Credits for Interruptions in Service

- (A) Credits for interruptions in service that is provided and billed on a flat rate basis for a minimum period of at least one month, beginning on the date that billing becomes effective, shall in no event exceed an amount equivalent to the proportionate charge to the Customer for the period of service during which the event that gave rise to the claim for a credit occurred. A credit allowance is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.
- (B) For calculating credit allowances, every month is considered to have thirty (30) days.
- (C) A credit allowance will be given for interruption of thirty (30) minutes or more. Two or more interruptions of fifteen (15) minutes or more during any one 24-hour period shall be combined into one cumulative interruption.

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SECTION 2.0 – RULES AND REGULATIONS, (CONTINUED)

2.7 Allowances for Interruption in Service, (Continued)

2.7.4 Application of Credits for Interruptions in Service, (Continued)

(D) Interruptions of 24 Hours or Less

Length of Interruption	Amount of Service to be Credited
Less than 30 minutes	None
30 minutes up to but not including 3 hours	1/10 Day
3 hours up to but not including 6 hours	1/5 Day
6 hours up to but not including 9 hours	2/5 Day
9 hours up to but not including 12 hours	3/5 Day
12 hours up to but not including 15 hours	4/5 Day
15 hours up to but not including 24 hours	One Day

(E) Interruptions Over 24 Hours and Less Than 72 Hours

Interruptions over 24 hours and less than 72 hours will be credited 1/5 day for each 3-hour period or fraction thereof. No more than one full day's credit will be allowed for any period of 24 hours.

(F) Interruptions Over 72 Hours

Interruptions over 72 hours will be credited 2 days for each full 24-hour period. No more than thirty (30) days credit will be allowed for any one-month period.

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SECTION 2.0 – RULES AND REGULATIONS, (CONTINUED)

2.7 Allowances for Interruption in Service, (Continued)

2.7.5 Limitations on Allowances

No credit allowance will be made for:

- (A) interruptions due to the negligence of or noncompliance with the provisions of this tariff by the Customer, authorized user or joint user;
- (B) interruptions due to the negligence of any person other than the Company, including but not limited to the Customer;
- (C) interruptions of service during any period in which the Company is not given full access to its facilities and equipment for the purpose of investigating and correcting interruptions;
- (D) interruptions of service during a period in which the Customer continues to use the service on an impaired basis;
- (E) interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;
- (F) interruption of service due to circumstances or causes beyond the reasonable control of Company; and
- (G) that occur or continue due to the Customer's failure to authorize replacement of any element of special construction.

2.7.6 Cancellation For Service Interruption

Cancellation or termination for service interruption is permitted only if any circuit experiences a single continuous outage of eight (8) hours or more or cumulative service credits equaling sixteen(16) hours in a continuous twelve (12) month period. The right to cancel service under this provision applies only to the single circuit which has been subject to the outage or cumulative service credits.

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SECTION 2.0 – RULES AND REGULATIONS, (CONTINUED)

2.8 Cancellation of Service/Termination Liability

If a Customer cancels a service order or terminates services before the completion of the term for any reason other than a service interruption (as defined in Section 2.7.1) or where the Company breaches the terms in the service contract, Customer may be requested by the Company to pay to Company termination liability charges, which are defined below. These charges shall become due and owing as of the effective date of the cancellation or termination and be payable within the period set forth in Section 2.6.2.

2.8.1 Termination Liability

Customer's termination liability for cancellation of service shall be equal to:

- (A) all unpaid non-recurring charges reasonably expended by Company to establish service to Customer, plus;
- (B) any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by Company on behalf of Customer, plus;
- (C) all recurring charges specified in the applicable Service Order for the balance of the then current term discounted at the prime rate announced in the *Wall Street Journal* on the third business day following the date of cancellation;
- (D) minus a reasonable allowance for costs avoided by the Company as a direct result of Customer's cancellation.

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SECTION 2.0 – RULES AND REGULATIONS, (CONTINUED)

2.9 Reserved for Future Use

2.10 Use of Customer's Service by Others

2.10.1 Resale and Sharing

There are no prohibitions or limitations on the resale of services. Prices for services appear in the price sheet attached to this tariff. Any service provided under this tariff may be resold to or shared with other persons at the option of Customer, subject to compliance with any applicable laws of the South Dakota Public Utilities Commission regulations governing such resale or sharing. The Customer remains solely responsible for all use of services ordered by it or billed to its telephone number(s) pursuant to this tariff, for determining who is authorized to use its services, and for notifying the Company of any unauthorized use.

2.10.2 Reserved for Future Use

2.11 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties to a) any subsidiary, parent company or affiliate of the Company; b) pursuant to any sale or transfer of substantially all the assets of the Company; or c) pursuant to any financing, merger or reorganization of the Company.

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SECTION 2.0 – RULES AND REGULATIONS, (CONTINUED)

2.12 Notices and Communications

- 2.12.2 The Customer shall designate on the service order an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.
- 2.12.3 The Company shall designate on the service order an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.
- 2.12.4 Except as otherwise stated in this tariff, all notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.
- 2.12.5 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

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SECTION 3.0 – SERVICE AREAS

3.1 Exchange Service Areas

Local exchange services are provided, subject to availability of facilities and equipment, in areas currently served by the following Incumbent LECs: 1) Qwest.

3.2 Rate Groups

Charges for local services provided by the Company may be based, in part, on the Rate Group associated with the Customers End Office. The Rate Group is determined by the total access lines and PBX trunks in the local calling area which can be reached from each End Office.

In the event that an Incumbent LEC or the South Dakota Public Utilities Commission reclassifies an exchange from one Rate Group to another, the reclassification will also apply to customers who purchase services under this tariff. Local calling areas and Rate Group assignments are equivalent to those areas and groups specified in Qwest's South Dakota General Subscriber Service Tariff (GSST).

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SECTION 3.0 – SERVICE AREAS (CONT'D)

3.3 Extended Area Service Additive

Certain exchanges within the Telecommunications Service Territory within South Dakota utilize an Extended Area Service additive to the rates provided in Sections 7.2, 7.3 and 7.5 of this tariff. The following chart identifies the additive rates that need to be added to the rates in those sections for the Extended Area Service rate.

3.3.1 Flat Rate Service Additive

To Be Determined

3.3.2 Message Rate Service Additive

To Be Determined

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Effective:

SECTION 4.0 – SERVICE CHARGES AND SURCHARGES

4.1 Service Order and Change Charges

Non-recurring charges apply to processing Service Orders for new service, for changes in service, and for changes in the Customer's primary interexchange carrier (PIC) code.

	<u>Residence</u>	<u>Business</u>
Line Connection Charge		
First Line	TBD	TBD
Each Additional Line	TBD	TBD
Line Change Charge		
First Line	TBD	TBD
Each Additional Line	TBD	TBD

4.2 Maintenance Visit Charges

Maintenance Visit Charges apply when the Company dispatches personnel to a Customer's premises to perform work necessary for installing new service, effecting changes in service or resolving troubles reported by the Customer when the trouble is found to be caused by the Customer's facilities.

Maintenance Visit Charges will be credited to the Customer's account in the event trouble is not found in the Company facilities, but the trouble is later determined to be in those facilities.

The time period for which the Maintenance Visit Charges is applied will commence when Company personnel are dispatched at the Customer premises and end when work is completed. The rates for Maintenance of Service vary by time per Customer request.

<u>Duration of time, per technician</u>	<u>Residential</u>	<u>Business</u>
Initial 15 minute increment	TBD	TBD
Each Additional 15 minute increment	TBD	TBD

4.3 Restoration of Service

A restoration charge applies to the restoration of suspended service and facilities because of nonpayment of bills and is payable at the time that the restoration of the suspended service and facilities is arranged. The restoration charge does not apply when, after disconnection of service, service is later re-installed.

	<u>Residence</u>	<u>Business</u>
Per occasion	TBD	TBD

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS

5.1 General

5.1.1 Services Offered

The following Network Services are available to residence/business Customers and for resale by other carriers certificated by the South Dakota Public Utilities Commission:

Standard Residence Line Service
Standard Business Line Service
PBX Trunk Service
Direct Inward Dial (DID) Service
Optional Calling Features

The following services are available to residence/business Customers and are not offered on a resale basis as of the effective date of this page.

Listing Services (including Non Published and Non Listed Services)
Directory Assistance
Miscellaneous Services (including Vanity Numbers and Number Portability)

5.1.2 Application of Rates and Charges

All services offered in this tariff are subject to service order and change charges where the Customer requests new services or changes in existing services, as well as indicated Non-Recurring and Monthly Recurring Charges. Charges for local calling services may be assessed on a measured rate basis and are additional to monthly recurring charges shown for Business or Residence lines, PBX Trunks, DID Trunks and Digital/DS1 service.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS, (CONT'D)

5.1 General (Continued)

5.1.3 Emergency Services Calling Plan

Access (at no additional charge) to the local operator or emergency services bureau by dialing 0- or 9-1-1 is offered at no charge to the Customer.

Message toll telephone calls, to governmental emergency service agencies as set forth in (A) following, having primary or principal responsibility with respect to the provision of emergency services to persons and property in the area from which the call is made, meeting the definition and criteria of an emergency call as set forth in (B) following are offered at no charge to Customers:

Governmental fire fighting, South Dakota State Highway Patrol, police, and emergency squad service (as designated by the appropriate governmental agency) qualify as governmental emergency service agencies provided they answer emergency service calls on a personally attended (live) twenty-four (24) hour basis, three hundred sixty-five (365) days a year, including holidays.

An emergency is an occurrence or set of circumstances in which conditions pose immediate threat to human life, property, or both and necessitate that prompt action be taken. An emergency call is an originated call of short duration to a governmental emergency services agency in order to seek assistance for such an emergency.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.2 Call Timing for Usage Sensitive Services

Where charges for a service are specified based on the duration of use, such as the duration of a telephone call, the following rules apply:

- 5.2.1 Calls are measured in durational increments identified for each service. All calls, which are fractions of a measurement increment, are rounded-up to the next whole unit.
- 5.2.2 Timing on completed calls begins when the call is answered by the called party. Answering is determined by hardware answer supervision in all cases where this signaling is provided by the terminating local carrier and any intermediate carrier(s).
- 5.2.3 Timing terminates on all calls when the calling party hangs up or the Company's network receives an off-hook signal from the terminating carrier.
- 5.2.4 Calls originating in one time period and terminating in another will be billed in proportion to the rates in effect during different segments of the call.
- 5.2.5 All times refer to local time.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.3 Distance Calculations

Where charges for a service are specified based upon distance, the following rules apply:

5.3.1 Distance between two points is measured as airline distance between the rate centers of the originating and terminating telephone lines. The rate center is a set of geographic coordinates, as referenced in Local Exchange Routing Guide issued by Bellcore, associated with each NPA-NXX combination (where NPA is the area code and NXX is the first three digits of a seven-digit telephone number). Where there is not telephone number associated with an access line on the Company's network (such as a dedicated 800 or WATS access line), the Company will apply the rate center of the Customer's main billing telephone number.

5.3.2 The airline distance between any two rate centers is determined as follows:

Step 1: Obtain the "V" (vertical) and "H" (horizontal) coordinates for each Rate Center from the above-referenced Bellcore document.

Step 2: Computer the difference between he "V" coordinate of the two rate centers; and the difference between the two "H" coordinates.

Step 3: Square each difference obtained in step (b) above.

Step 4: Add the square of the "V" difference and the square of the "H" difference obtained in step C) above.

Step 5: Divide the sum of the squares by 10. Round to the next higher whole number if any fraction is obtained.

Step 6: Obtain the square root of the whole number result obtained above. Round to the next higher whole number if any fraction is obtained. This is the airline mileage.

5.3.3 The formula for distance calculations is:

$$(V_1 - V_2)^2 + (H_1 - H_2)^2$$

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.5 Standard Residence Line

A Standard Residence Line provides the Customer with a single, analog, voice-grade telephonic communications channel, which can be used to place or receive one call at a time. Standard Residence Lines are provided for the connection of Customer-provided wiring and single station sets or facsimile machines. An optional per line Hunting feature is available for multi-line Customers which routes a call to an idle station line in a prearranged group when the called station line is busy.

5.6 Standard Business Line

The Standard Business Line provides a Customer with a single, analog, voice-grade telephonic communications channel, which can be used to place or receive one call at a time. Standard Business Lines are provided for the connection of Customer-provided wiring and single station sets or facsimile machines. An optional per line Hunting feature is available for multi-line Customers which routes a call to an idle station line in a prearranged group when the called station line is busy.

5.7 PBX Trunk Service

Basic PBX Trunk Service provides a Customer with a single, voice-grade telephonic communications channel, which can be used to place or receive one call at a time. Basic Trunks are provided for connection of Customer-provided private branch exchanges (PBX) to the public switched telecommunications network. Each Basic PBX Trunk is provided with touch-tone signaling and may be configured into a hunt group at no additional charge with other Company-provided Basic PBX Trunks. The signal is an analog signal at the DSO level.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.8 Reserved for Future Use

5.9 Direct Inward Dialing (DID) Service

Direct Inward Dialing (“DID”) permits calls incoming to a PBX system or other Customer Premises Equipment to be routed to a specific station without the assistance of an attendant. DID calls are routed directly to the station associated with the called number. DID service as offered by the Company provides the necessary trunks, telephone numbers, and out-pulsing of digits to enables DID service at a Customer’s location. DID service requires special PBX software and hardware not provided by the Company. Such hardware and software is the responsibility of the Customer.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.10 Reserved for Future Use

5.11 Optional Calling Features

The features listed in Section 5.11.1 are offered by the Company to Residential and Business Customers. Refer to Price Lists in Sections 6 and 7 of this tariff for specific features offered with each type of local exchange service.

5.11.1 Features Descriptions

(A) Flexible Call Forwarding: Provides end-user control for call forwarding capabilities via dial-accessed voice prompt menus. Customers may forward calls to a primary local or long distance. The end-user may specify a secondary location for routing of go unanswered at the forward-to location or reach a busy signal. This secondary location may be another telephone number, pager or voice messaging service. Other capabilities included with this feature include:

Speed Forwarding;
Priority Screening;
Ring Control; and
Timed Forwarding.

It is the responsibility of the Customer to subscribe to the telephone number, pager or voice messaging service used as the secondary location.

(B) Flexible Call Forwarding with Audio Calling Name: Provides all of the functionality of Enhanced Call Forwarding. Also permits the end-user to receive the Directory Name of the party's whose call was forwarded to primary number. In some situations, the end-user may hear the calling party's city and state or telephone number, depending on available call data.

(C) Flexible Call Forwarding Plus: Provides all of the functionality of Enhanced Call Forwarding. Also includes an additional telephone number with directory listing and distinctive ringing for calls placed to the additional number. Enhanced Call Forwarding Plus allows parties to reach the end-user's location when FCF is active and all calls to the end-users main telephone number would normally forward. Calls to the additional number do not forward even when Enhanced Call Forwarding is active.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

- (D) **Flexible Call Forwarding Plus with Audio Calling Name:** Provides all of the functionality of Enhanced Call Forwarding Plus including the additional telephone number with listing and distinctive ringing. Also permits the end-user to receive the Directory Name of the party's whose call was forwarded to primary number. In some situations, the end-user may hear the calling party's city and state or telephone number, depending on available call data.
- (E) **Call Forwarding Variable:** Permits the end-user to automatically forward (transfer) all incoming calls to another telephone number, and to restore it to normal operation at their discretion. The end-user must dial an activation code from his/her exchange line along with the forward-to number in order to turn the feature on. A separate code is dialed by the end-user to deactivate the feature.
- (F) **Call Forwarding Variable, Remote Access:** Permits the end-user to automatically forward (transfer) all incoming calls to another telephone number, and to restore it to normal operation at their discretion. The end-user must dial an activation code along with the forward-to number in order to turn the feature on. A separate code is dialed by the end-user to deactivate the feature. Feature activation may be performed from the end-user's exchange line or remotely from some other line. Remote access requires the end-user to (1) dial a special access number 2) enter their seven-digit telephone number and 3) enter a personal identification number prior to forwarding their calls.
- (G) **Call Forwarding Don't Answer, Basic:** Permits the forwarding of incoming calls when the end-user's line remains unanswered after a pre-designated ringing interval. The ringing interval before forwarding and the forward-to number are fixed by the service order.
- (H) **Call Forwarding Don't Answer w/Ring Control:** Permits the forwarding of incoming calls when the end-user's line remains unanswered after a pre-designated ringing interval. The forward-to number is fixed by the service order. However, the end-user has the ability to change the time interval before forwarding occurs at his/her discretion.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

- (I) Call Forwarding Don't Answer w/Customer Control:** Permits the forwarding of incoming calls when the end-user's line remains unanswered after a pre-designated ringing interval. The ringing interval before forwarding and the forward-to number are fixed by the service order. However, the end-user has the ability to turn the feature on or off at his/her discretion.
- (J) Call Forwarding Busy Line, Basic:** Permits the forwarding of incoming calls when the end-user's line is busy. The forwarded number is fixed by the end-user service order.
- (K) Call Forwarding Busy Line w/Customer Control:** Permits the forwarding of incoming calls when the end-user's line is busy. The forwarded number is fixed by the end-user service order. However, the end-user has the ability to turn the feature on or off at his/her discretion.
- (L) Call Waiting – Basic:** Call Waiting provides a tone signal to indicate to a Customer already engaged in a telephone call that a second caller is attempting to dial in. It permits the Customer to place the first call on hold, answer the second call and then alternate between both callers. Cancel Call Waiting is provided with the feature and allows a Call Waiting end-user to disable the Call Waiting feature for the duration of a single outgoing telephone call. Cancel Call Waiting is activate by dialing a special code prior to placing a call, and is automatically deactivated when the Customer disconnects from the call.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

(M) Call Waiting -- Deluxe: Allows the end-user to control the treatment applied to incoming calls while the Customer is off-hook on an existing call. This feature includes the capabilities of Call Waiting Basic plus additional call treatment options. Treatment options offered with Call Waiting Deluxe include:

Answer the waiting call and placing the first party on hold;
Answer the waiting call and disconnecting from the first party;
Direct the waiting caller to hold via a recording
Forward the waiting caller to another location (e.g., voice mailbox or telephone answering service)

Full utilization of Call Waiting Deluxe requires specialized CPE not provided by the Company. It is the responsibility of the Customer to provide the necessary CPE. The end-user must have Caller ID Basic or Deluxe for display of calling party identification information for waiting calls. The end-user must have a Call Forwarding don't Answer feature active in order to forward a waiting call to another location.

(N) Call Waiting – Deluxe with Conferencing: Provides all of the functionality of Call Waiting Deluxe. Also permits the end-user to conference a waiting call with an existing call (first party) and, if desired, subsequently drop either leg of the conferenced call.

(O) Caller ID – Basic: Permits the end-user to view a Directory Number of the calling party on incoming telephone calls. Information is displayed on a specialized CPE not provided by the Company. The feature also provides the date and time of each incoming call. It is the responsibility of the Customer to provide the necessary CPE.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

- (P) **Caller ID – Deluxe:** Permits the end-user to view a Directory Name and Directory Number of the calling party on incoming telephone calls. Information is displayed on a specialized CPE not provided by the Company. The feature also provides the date and time of each incoming call. It is the responsibility of the Customer to provide the necessary CPE. In some situations, the calling party's city and state may be displayed rather than a Directory Name, depending on available call data.
- (Q) **Anonymous Call Rejection:** Permits the end-user to automatically reject incoming calls when the call originates from a telephone number which has blocked delivery of its calling number (see Calling Number Delivery Blocking). When active, calls from private numbers will be routed to a special announcement then terminated. The feature may be turned on or off by the end-user by dialing the appropriate feature control code. Anonymous Call Rejection is offered as a stand-alone feature or as an add-on to Caller ID Deluxe.
- (R) **Call Block:** Allows the end-user to automatically block incoming calls from up to six end-user pre-selected telephone numbers programmed into the feature's screening list. Callers whose numbers have been blocked will hear a recorded message stating that their call has been blocked. The end-user controls when the feature is active, and can add or remove calling numbers from the feature's screening list.
- (S) **Call Return:** Allows the Customer to return a call to the last incoming call whether answered or not. Upon activation, it will redial the number automatically and continue to check the number every 45 seconds for up to 30 minutes if the number is busy. The Customer is alerted with a distinctive ringing pattern when the busy number is free. When the Customer answers the ring, the call is then completed. The calling party's number will not be delivered or announced to the call recipient under any circumstances.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

- (T) **Call Selector:** Allows a Customer to assign a maximum of 15 telephone numbers to a special list. The Customer will hear a distinctive ring when calls are received from telephone numbers on that list.
- (U) **Call Tracing:** Allows the tracing of nuisance calls to a specified telephone number suspected of originating from a given local office. The tracing is activated upon entering the specified dial code. The originating telephone number, outgoing trunk number or terminating number, and the time and date are generated for every call to the specified telephone number can then be identified.
- (V) **Calling Number Delivery Blocking:** Prevents the delivery, display and announcement of the end-user's Directory Number and Directory Name on all calls dialed from an exchange service equipped with this option. When active, the end-user's telephone name and number will not appear on the called party's Caller ID CPE or be disclosed in another way. The feature is available on a per call or per line basis. With per call Calling Number Delivery Blocking, it is necessary for the end-user to dial an activation code prior to placing the call. With the per line version of the feature, all calls are placed with the end-user's number blocked. Per line end-users must dial an activation code prior to utilization.
- (W) **Message Waiting Indication:** Provides the end-user with an audible (stutter dial tone) or visual (lamp or other CPE display) indication that messages are waiting to be retrieved. Message Waiting Indication can only be activated/deactivated by a voice mailbox or other voice messaging service provided by the Company or third party. It is the responsibility of the Customer to subscribe to a compatible voice messaging service. Visual Message Waiting Indication requires specialized CPE not provided by the Company. It is the responsibility of the Customer to provide the necessary CPE.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

- (X) Multiple Directory Number Distinctive Ringing:** This feature allows an end user to determine the source of an incoming call from a distinctive ring. The end user may have up to two additional numbers assigned to a single line (i.e. Distinctive Ringing – First Number and Distinctive Ringing – Second Number). The designated primary number will receive a normal ringing pattern; other numbers will receive distinctive ringing patterns. The pattern is based on the telephone number that the calling party dials.
- (Y) Preferred Call Forwarding:** Permits the end-user to automatically forward to another number calls received from up to six end-user pre-selected telephone numbers programmed into the features screening list. The end-user controls when the feature is active, the forward-to-number and can add or remove calling numbers from the feature's screening list.
- (Z) Repeat Dialing:** Permits the end-user to have calls automatically redialed when the first attempt reaches a busy number. The line is checked every 45 seconds for up to 30 minutes and alerts the Customer with a distinctive ringing pattern when the busy number and the Customer's line are free. The Customer can continue to make and receive calls while the feature is activated. The following types of calls cannot be reached using Repeat Dialing:

- Calls to 800 Service numbers
- Calls to 900 Service numbers
- Calls preceded by an interexchange carrier access code
- International Direct Distance Dialed calls
- Calls to Directory Assistance
- Calls to 911

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

- (AA) **Speed Calling:** Permits the Customer to place calls to other telephone numbers by dialing a one or two digit code rather than the complete telephone number. The feature is available as either an eight (8) code list or a thirty (30) code list. Code lists may include local and/or toll telephone numbers. The Customer has the ability to add or remove telephone numbers and codes to/from the speed calling list without assistance from the Company.
- (AB) **Three Way Calling:** Permits the end-user to add a third party to an established connection. When the third party answers, a two-way conversation can be held before adding the original party for a three-way conference. The end-user initiating the conference controls the call and may disconnect the third party to reestablish the original connection or establish a connection to a different third party. The feature may be used on both outgoing and incoming.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.12 Listing Services

For each Customer of Company-provided Exchange Service(s), the Company shall arrange for the listing of the Customer's main billing telephone number in the directory(ies) published by the dominant Local Exchange Carrier in the area at no additional charge. At a Customer's option, the Company will arrange for additional listings for an additional charge.

5.12.1 Non-Published Service

This optional service provides for suppression of printed and recorded directory listings. A Customer's name and number do not appear in printed directories or Directory Assistance Bureau records.

5.12.2 Non-Listed Service

This optional service provides for suppression of printed directory listings only. Parties may still obtain the Customer's number by calling the Directory Assistance Bureau.

5.13 Directory Assistance

Provides for identification of telephone directory numbers, via an operator or automated platform. Customers are provided with a maximum of 2 listings per each call to Directory Assistance.

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SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.14 Reserved for Future Use

5.15 Reserved for Future Use

5.16 Miscellaneous Services

5.16.1 Main Number Retention

Main Number Retention is an optional feature by which a Customer, who was formally a customer of another certified local exchange carrier at the same premises location, may retain its main telephone numbers and main fax numbers for use with the Company-provided Exchange Services. Main Number Retention service is only available in areas where the Company maintains some form of number retention arrangement with the Customer's former local exchange carrier.

5.16.2 Pay Per Call Blocking/Unblocking

This service provides the option of blocking, or subsequent unblocking, all 900 and 976 calls on a per line basis. The Company will provide for per-line blocking where the Company's switching facilities permit.

5.16.3 Vanity Number Service

This service provides for the reservation of special or unique telephone number and fax number for use with the Company-provided exchange services.

5.16.4 Presubscription Services

This service provides for the Presubscription of local exchange lines provided by the Company to the intraLATA and interLATA long distance carrier(s) selected by the Customer.

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SECTION 6.0 – RESERVED FOR FUTURE USE

6.1 Reserved for Future Use

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST

7.1 General

Services provided in this tariff section are available on a Resale Service basis. Local Resale Services are provided through the use of resold switching and transport facilities obtained from Other Telephone Companies.

The rates, terms and conditions set forth in the section are applicable where the Company provides specified local exchange services to Customers through resale of local exchange services.

All rates set forth in this Section are subject to change and may be changed by the Company pursuant to notice requirements established by the South Dakota Public Utilities Commission.

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST, (CONTINUED)

7.2 Standard Residence Local Exchange Service

Standard Residence Local Exchange Service provides the Customer with a single, analog, voice-grade telephonic communications channel, which can be used to place or receive one call at a time. Standard Residence Local Exchange Service lines are provided for the connection of Customer-provided wiring, telephones, facsimile machines or other station equipment. An optional per line Hunting feature is available for multi-line Customers, which routes a call to the next idle line in a prearranged group when the called line is busy.

Local exchange service lines and trunks are provided on a single party (individual) basis only. No multi-party lines are provided. Service is available on a flat rate, measured rate or message rate basis depending on the service plan selected by the Customer. Not all service plans will be available in all areas.

Usage charges if applicable are billed in arrears. Usage charges may apply for calls placed from the Customer's line. No usage charges will apply to calls received by the Customer. Non-recurring charges for installation or rearrangement of service are billed on the next month's bill immediately following work performed by the Company.

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.2 Standard Residence Local Exchange Service (Continued)

7.2.1 Monthly Recurring Charges

The following charges apply to Standard Residence Local Exchange Service lines per month. Rates and charges include Touch-tone Service for each line. The rates and charges below apply to service provided on a month-to-month basis.

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.2 Standard Residence Local Exchange Service (Continued)

7.2.2 Other Monthly Recurring Charges

(A) Hunting (a.k.a. Rotary or Grouping)

The following charges apply to Standard Residence Local Exchange lines equipped with Hunting. Rates vary based on Rate Group.

To Be Determined

7.2.3 Usage Sensitive Charges and Allowances

(A) Flat Rate Service

No measured or message charges apply to calls placed or received from Flat Rate service lines. Customers receive unlimited calling within their local calling area.

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.2 Standard Residence Local Exchange Service, (Continued)

7.2.4 Non-Recurring Charges

Non-recurring charges apply to each line installed for the Customer. Non-recurring charges are in addition to applicable service order charges contained in Section 4 of this tariff. All such charges will appear on the next bill following installation of the service.

Non-recurring charges for installation of Residential lines are:

First Line	TBD
Each Additional Line(1)	TBD

NOTES:

- (1) Additional Line installation charges apply only when 2 or more lines are installed at the same time and at the same Customer Premises.

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.3 Standard Business Local Exchange Service

Standard Business Local Exchange Service provides the Customer with a single, analog, voice-grade telephonic communications channel, which can be used to place or receive one call at a time. Standard Business Local Exchange Service lines are provided for the connection of Customer-provided wiring, telephones, facsimile machines or other station equipment. An optional per line Hunting feature is available for multi-line Customers which routes a call to the next idle line in a prearranged group when the called line is busy.

Local exchange service lines and trunks are provided on a single party (individual) basis only. No multi-party lines are provided. Service is available on a flat rate, measured rate or message rate basis depending on the service plan selected by the Customer. Not all service plans will be available in all areas.

Usage charges, if applicable are billed in arrears. Usage charges may apply for calls placed from the Customer's line. No usage charges will apply to calls received by the Customer. Non-recurring charges for installation or rearrangement of service are billed on the next month's bill immediately following work performed by the Company.

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.3 Standard Business Local Exchange Service, (Continued)

7.3.1 Monthly Recurring Charges

The following charges apply to Standard Business Local Exchange Service lines per month. Rates and charges include Touchtone Service for each line. The rates and charges below apply to service provided on a month-to-month basis.

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.3 Standard Business Local Exchange Service, (Continued)

7.3.2 Other Monthly Recurring Charges

(A) Hunting (a/k/a Rotary or Grouping)

The following charges apply to Standard Business Local Exchange lines equipped with Hunting. Rates vary based on Rate Group.

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.3 Standard Business Local Exchange Service, (Continued)

7.3.3 Usage Sensitive Charges and Allowances

(A) Flat Rate Service

No measured or message charges apply to calls placed or received from Flat Rate service lines. Customers receive unlimited calling within their local calling area.

(B) Message Service

Customers subscribing to Message Service will receive a monthly usage allowance of 75 outgoing calls. This allowance is applied to local calls placed from the Customer's line. Local usage in excess of the allowance will be billed in arrears. Local usage is billed on a per call basis.

Per Local Call

TBD

(1) Calls to Expanded Service Areas

The following per minute rates apply to calls to points in the Expanded Service Areas as defined in the Qwest's General Subscriber Service Tariff presently on file with the SD PUC.

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.3 Standard Business Local Exchange Service, (Continued)

7.3.4 Non-Recurring Charges

Non-recurring charges apply to each line installed for the Customer. Non-recurring charges are in addition to applicable service order charges contained in Section 4 of this tariff. All such charges will appear on the next bill following installation of the service.

Non-recurring charges for installation of Residential lines are:

First Line	TBD
Each Additional Line(1)	TBD

NOTES:

- (1) Additional Line installation charges apply only when 2 or more lines are installed at the same time and at the same Customer Premises.

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.5 Residence and Business PBX Trunk Service

PBX Trunk service provides a Customer with a single, voice-grade telephonic communications channel which can be used to place one call at a time. Trunks are provided for connection of Customer-provided private branch exchanges (PBX) or other station equipment to the public switched telecommunications network.

PBX Trunks are available to Business and Residence Customers as Inward, Outward or Two-Way combination trunks where services and facilities permit.

Each PBX Trunk is provided with Touchtone signaling at no additional charge. An optional per trunk Hunting feature is available for Customers which routes a call to the next idle trunk in a prearranged group (see Sections 7.2 and 7.3).

PBX Trunks may also be equipped with Direct Inward Dialing (DID) capability and DID number blocks for additional charges (see Section 7.6).

7.5.1 Flat Rate Service

To Be Determined

7.5.2 Message Rate Service

To Be Determined

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.6 Direct Inward Dialing (DID) Service

Direct Inward Dialing (“DID”) permits calls incoming to a PBX system or other Customer Premises Equipment to be routed to a specific station without the assistance of an attendant. DID calls are route directly to the station associated with the called number. DID service as offered by the Company provides the necessary trunks, telephone numbers, and out-pulsing of digits to enable DID service at a Customer’s location. DID service requires special PBX software and hardware not provided by the Company. Such hardware and software is the responsibility of the Customer.

The following charges apply to Customers subscribing to DID service provided by the Company. These charges are in addition to recurring and non-recurring charges for PBX Trunks as shown in Section 7.5 of this tariff. The Customer will be charged for the number of DID numbers utilized out of the available 20 numbers.

	<u>Installation Charge</u>	<u>Monthly Recurring</u>
Establish Trunk Group and Provide 1 st Block of 20 DID Numbers	TBD	TBD
Each Additional Block of 20 DID Numbers	TBD	TBD
DID Trunk Termination: Per Inward Only Trunk	TBD TBD	TBD TBD
Per Combination Trunk with Call Transfer		
Dual Tone Multifrequency Pulsing Option, Per Trunk	N/A	TBD
Automatic Intercept Service, Per Number Referred	TBD	N/A

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Issued by:

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Covista, Inc.
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Chattanooga, Tennessee 37402

Effective:

SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.7 Reserved For Future Use

7.8 Optional Calling Features

The features in this section are made available on an individual basis or as part of multiple feature packages. All features are provided subject to availability. Certain features may not be available with all classes of service. Transmission levels for calls forwarded or calls placed or received using optional calling features may not be acceptable for all some uses in some cases.

7.8.1 Features Offered on a Usage Sensitive Basis

The following features are available to all local exchange Business and Residence line Customers where facilities and services permit. Customers may utilize each feature by dialing the appropriate access code. The Customer will be billed the Per Feature Activation Charge shown in the following table each time a feature is used by the Customer. Customers may subscribe to these features on a monthly basis at their option to obtain unlimited use of these features for a fixed monthly charge.

Optional Calling Features	Residence	Business
Three-Way Calling	TBD	TBD
Call Return	TBD	TBD
Repeat Dialing	TBD	TBD
Calling Number Delivery Blocking, Per Call	TBD	TBD

Denial of per call activation for Three-Way Calling, Call Return and Repeat Dialing from any line or trunk is available to Customers upon request at no additional charge.

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.8 Optional Calling Features, (Continued)

7.8.2 Features Offered on a Monthly Basis

The following optional calling features are offered to Customers on a monthly basis. Customers are allowed unlimited use of each feature. No usage sensitive charges apply. Multiline Customers must order the appropriate number of features based on the number of lines which will have access to the feature.

Optional Calling Feature	Residence	Business
Flexible Call Forwarding		
Flexible Call Forwarding with Audio Calling Name		
Flexible Call Forwarding Plus		
Flexible Call Forwarding Plus with Audio Calling Name		
Call Forwarding Variable		
Call Forwarding Variable with Remote Access		
Call Forwarding Don't Answer – Basic		
Call Forwarding Don't Answer w/Ring Control		
Call Forwarding Don't Answer w/Customer Control		
Call Forwarding Busy Line – Basic		
Call Forwarding Busy Line w/Customer Control		
Call Waiting – Basic		
Call Waiting – Deluxe		
Call Waiting – Deluxe with Conferencing		

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SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.8 Optional Calling Features, (Continued)

7.8.2 Features Offered on a Monthly Basis

Optional Calling Feature (cont'd)	Residence	Business
Caller ID – Basic		
Caller ID – Deluxe		
Caller ID – Deluxe W/Anonymous Call Rejection		
Anonymous Call Rejection		
Call Block		
Call Return		
Call Selector		
Call Tracing		
Calling Number Delivery Blocking (per line equipped)		
Message Waiting Indication – Audible		
Message Waiting Indication – Audible and Visual		
Multiple Directory Number Distinctive Ringing – First DN		
Multiple Directory Number Distinctive Ringing – Second DN		
Preferred Call Forwarding		
Repeat Dialing		
Speed Calling (30 codes)		
Speed Calling (8 codes)		
Three Way Calling		

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Effective:

SECTION 8.0 – DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings

8.1.1 General

The following rules apply to standard listings in light face type in the white pages (alphabetical section) of the telephone directory and to the Directory Assistance records of the Company.

Only information necessary to identify the Customer is included in these listings. The Company use abbreviations in listings. The Company may reject a residence listing, which is judged to be advertising. It may also reject a listing it judges to be objectionable. A name made up by adding a term such as Company, Shop, Agency, Works, etc. to the name of a commodity or service willing to be accepted as a listing unless the subscriber is legally doing business under that name.

A name may be repeated in the white pages only when a different address or telephone number is used.

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SECTION 8.0 – DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Continued)

8.1.2 Composition of Listings

(A) Names

The following names may be included in business service listings:

- (1) The name of subscriber or joint user.
- (2) The name of each business enterprise which the subscriber or joint user conducts.
- (3) The name by which the business of a subscriber or joint user is known to the public. Only one such name representing the same general line of business will be accepted.
- (4) The name of any person associated with the subscriber or joint user in the same business.
- (5) The name of any person, firm or organization which subscriber or joint user is authorized to represent, or the name of an authorized representative of the subscriber or joint user.
- (6) Alternative spelling of an individual name or alternative arrangement of a business name, provided the listing in the judgment of the Company, is not for advertising purposes. The name of a publication issued periodically by the subscriber or joint user.
- (7) The name of an inactive business organization in a cross-reference listing when authorized by such business or organization.
- (8) The name of a member of subscriber's domestic establishment when business service is furnished in the subscriber's residence.
- (9) The name of a corporation which is the parent or a subsidiary of the subscriber.
- (10) The name of a resident of a hotel, apartment house, boarding house or club which is furnished PBX service, may be included in a residence type listing with the telephone number of the PBX service.
- (11) The name of the subscriber to a sharing arrangement.

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Effective:

SECTION 8.0 – DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Continued)

8.1.2 Composition of Listings, (Continued)

(B) Designation

The purpose of a business designation is to identify the listed party and not to advertise the business. No designation of the nature of the business is included if this is sufficiently indicated by the name. Where a listed party is engaged in more than one general line of business, one additional business designation may be included in the listing when necessary to identify the listed party. When a listed party has two or more listed telephone number or two or more business addresses, designations indicating the branches of the organization may be included where necessary to assist the public in calling.

A designation may include a title to indicate a listed party's official position, but not the name of the firm or corporation with which the individual is connected. Individual names or titles are not shown following the name of a firm or corporation. A term such as "renting agent" may be included in a listing indented under the name of a building, provided the agent maintains a renting office in such a building.

A designation is not ordinarily provided in a residence type listing except for residential service as permitted under the terms of this tariff. A professional designation is permitted on residence service in the case of a physician, surgeon, dentist, osteopath, chiropodist, podiatrist, optometrist, chiropractor, physiotherapist, Christian Science practitioner, veterinary surgeon, registered nurse or licensed practical nurse, provided that the same name and designation is also listed on business service of that subscriber or another subscriber in the same or different directory.

The listing of service in the residence of a clergyman may include the designation "parsonage," "rectory," "parish house," or "manse," and any such listing may be indented under a listing in the name of the church. Where residence service is furnished in a church study, the listing may include the designation "study."

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Effective:

SECTION 8.0 – DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Continued)

8.1.2 Composition of Listings, (Continued)

(C) Address

Each residence or non-profit listing may, but does not have to, include the house number and street name of the residence where the telephone service is provided. Other information, such as a building name or a locality designation, may be included to help identify the Customer.

(D) Telephone Number

Each listing may include only one telephone number, except in an alternate telephone number listing where each number listed is considered a line for rate purposes.

A listing may include only the telephone number of the first line of a PBX system or incoming service group, except that a trunk not included in the incoming service group of a PBX system, or the first trunk of a separate incoming service group of a PBX system may be listed to meet special conditions where a corporation and its subsidiaries use the same PBX system.

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Effective:

SECTION 8.0 – DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Continued)

8.1.3 Types of Listings

(A) Standard Listing

A standard listing includes a name, designation, address and telephone number of the Customer. It appears in the White Pages of the telephone directory and in the Company's Directory Assistance records. The designation in the listing will be provided according to the rules in paragraph 5.13.2.2 above.

(B) Indented Listing

An indented listing appears under a standard listing and may include only a designation, address and telephone number. An indented listing is allowed only when a Customer is entitled to two or more listings of the same name with different addresses or different telephone numbers. For example:

Smith, John MD	
Office 125 Portland	555-4180
Residence 9 Glenway	555-8345

Such listing may be furnished as an indented listing or as a sub-caption. The telephone number in such a listing may be that of another service furnished the same subscriber or one of the subscriber's PBX trunks not included in the incoming service group, or the service furnished a different subscriber.

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Effective:

SECTION 8.0 – DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Continued)

8.1.3 Types of Listings, (Continued)

(C) Alternate Telephone Number Listing and Night Listing

Any listed party who has made the necessary arrangements for receiving telephone calls during his or her absence may have an alternate telephone number listing or a night listing, such as the following.

If no answer call (telephone number)

Night calls (telephone number)

Night calls after ___PM (telephone number)

Nights, Sundays and holidays (telephone number)

5PM to 9AM weekdays, Saturday until 9AM, Monday and holidays
(telephone number)

Such listing may be furnished as an indented listing or as a sub-caption. The telephone number in such a listing may be that of another service furnished the same subscriber or one of the subscriber's PBX trunks not included in the incoming service group, or the service furnished a different subscriber.

(D) Duplicate Listing

Any listing may be duplicated in a different directory or under a separate geographical heading in the same directory. Such listing may be duplicated in indented form.

(E) Reference Listing

A subscriber having exchange services listed under different geographical headings may have an indented listing in reference form in lieu of a duplicate listing.

(F) Cross Reference Listing

A cross reference listing may be furnished in the same alphabetical group with the related listing when required for identification of the listed party and not designated for advertising purposes.

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Effective:

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Cont'd.)

8.1.4 Free Listings

The following listings are provided at no additional charge to the Customer: one listing for each individual line service, auxiliary line or PBX system.

8.1.5 Rates for Additional Listings - Business Customers

The following rates and charges apply to additional listings requested by the Customer over and above those free listings provided for in Section 8.1.4.

Type of Listing	Residential Charge	Business Charge
Reference/Cross Reference:		
- Each Listing	TBD	TBD
Alternate Telephone Number/Night Listing:		
- Night, Sundays & Holidays	TBD	TBD
- First Line	TBD	TBD
Additional Listing	TBD	TBD
Foreign Listing	TBD	TBD
Dual Name Liking - Non Recurring	TBD	TBD

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Effective:

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.2 Non-Published Service

8.2.1 General

Non-published service means that the Customer's telephone number is not listed in the directory, nor does it appear in the Company's Directory Assistance Records.

8.2.2 Regulations

This service is subject to the rules and regulations for E911 service, where applicable.

The Company will complete calls to a non-published number only when the caller dials direct or gives the operator number. No exceptions will be made, even if the caller says it is an emergency.

When the Company agrees to keep a number unlisted, it does so without any obligation. Except for cases of negligence or willful misconduct, the Company is not liable for any damages that might arise from publishing a non-published number in the directory or disclosing it to some.

8.2.3 Rates and Charges

There is a monthly charge for each non-published service. This charge does not apply if the Customer has other listed service at the same location; if the Customer lives in a hotel, boarding house or club with listed service; or if the service is installed for a temporary period.

Non-published service charge, per month

TBD

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Effective:

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.3 Non-Listed Service

8.3.1 General

Non-listed service means that the Customer's telephone number is not listed in the directory, but does it appear in the Company's Directory Assistance Records.

8.3.2 Regulations

This service is subject to the rules and regulations for E911 service, where applicable.

The Company will complete calls to a non-listed number.

When the Company agrees to keep a number unlisted, it does so without any obligation. Except for cases of negligence or willful misconduct, the Company is not liable for any damages that might arise from publishing a non-listed number in the directory or disclosing it to some.

8.3.3 Rates and Charges

There is a monthly charge for each non-listed service. This charge applies if the Customer has other listed service at the same location; if the Customer lives in a hotel, boarding house or club with listed service; or in the service is installed for a temporary period.

Non-listed service charge, per month: TBD

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Effective:

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.4 Directory Assistance Services

8.4.1 Directory Assistance

A Directory Assistance charge applies per local directory assistance call. The Customer may make two (2) requests for a telephone number per call. The Directory Assistance Charge applies regardless of whether the Directory Assistance operator is able to supply the requested number. No charge applies for the first call per month per residence line.

Each Local Directory Assistance Call

TBD

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Effective:

SECTION 9.0 - RESERVED FOR FUTURE USE

9.1 Reserved For Future Use

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Effective:

SECTION 10.0 - RESERVED FOR FUTURE USE

10.1 Reserved For Future Use

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Effective:

SECTION 11.0 - MISCELLANEOUS SERVICES

11.1 Carrier Presubscription

11.1.1 General

Carrier Presubscription is a procedure whereby a Customer designates to the Company the carrier which the Customer wishes to be the carrier of choice for intraLATA and interLATA toll calls, Such calls are automatically directed to the designated carrier, without the need to use carrier access codes or additional dialing to direct the call to the designated carrier. Presubscription does not prevent a Customer who has presubscribed to an IntraLATA or InterLATA toll carrier from using carrier access codes or additional dialing to direct calls to an alternative long distance carrier on a per call basis.

11.1.2 Presubscription Options - Customers may select the same carrier or separate carriers for intraLATA and interLATA long distance. The following options for long distance Presubscription are available:

- Option A:** Customer select the Company as the presubscribed carrier for IntraLATA and InterLATA toll calls subject to presubscription.
- Option B:** Customer may select the Company as the presubscribed carrier for IntraLATA calls subject to presubscription and some other carrier as the presubscribed carrier for interLATA toll calls subject to presubscription.
- Option C:** Customer may select a carrier other than the Company for intraLATA toll calls subject to presubscription and the Company for interLATA toll calls subject to presubscription.
- Option D:** Customer may select the carrier other than the Company for both intraLATA and interLATA toll calls subject to presubscription.
- Option E:** Customer may select two different carriers, neither being the Company for intraLATA and interLATA toll calls. One carrier to be the Customers' primary intraLATA interexchange carrier. The other carrier to be the Customer's primary interLATA interexchange carrier.
- Option F:** Customer may select a carrier other than the Company for no presubscribed carrier for intraLATA toll calls subject to presubscription which will require the Customer to dial a carrier access code to route all intraLATA toll calls to the carrier of choice for each call.

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Effective:

SECTION 11.0 – MISCELLANEOUS SERVICES (CONTINUED)

11.1 Carrier Presubscription, (Continued)

11.1.3 Rules and Regulations

Customers of record will retain their primary interexchange carrier(s) until they request that their dialing arrangements be changed.

Customers of record or new Customers may select either Options A, B, C, D, E or F for intraLATA Presubscription.

Customers may change their selected Option and/or presubscribed toll carrier at any time subject to charges specified in 11.4.5 below:

11.1.4 Presubscription Procedures

A new Customer will be asked to select intraLATA and interLATA toll carriers at the time the Customer places an order to establish local exchange service with the Company. The Company will process the Customer's order for service. All new Customers initial requests for intraLATA toll service presubscription shall be provided free of charge.

If a new Customer is unable to make selection at the time the new Customer places an order to establish local exchange service, the Company will read a random listing of all available intraLATA and interLATA carriers to aid the Customer in selection. If selection is still not possible, the Company will inform the Customer that he/she will be given 90 calendar days in which to inform the Company of his/her choice for primary toll carrier(s) free of charge. Until the Customer informs the Company of his/her choice of primary toll carrier, the Customer will not have access to long distance services on a presubscribed basis, but rather will be required to dial a carrier access code to route all toll calls to the carrier(s) of choice. Customers who inform the Company of a choice for toll carrier presubscription within the 90-day period will not be assessed a service charge for the initial Customer request.

Customers of record may initiate an intraLATA or interLATA presubscription change at any time, subject to the charges specified in 11.4.5 below. If a Customer of record inquires of the Company of the carriers available for toll presubscription, the Company will read a random listing of all available intraLATA carriers to aid the Customer in selection.

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Effective:

SECTION 11.0 – MISCELLANEOUS SERVICES (CONTINUED)

11.1 Carrier Presubscription, (Continued)

11.1.5 Presubscription Charges

(A) Application of Charges

After a Customer's initial selection for a presubscribed toll carrier and as detailed in Paragraph 11.1.4 above, for any change thereafter, a Presubscription Change Charge, as set forth below will apply. Customers who request a change in intraLATA and interLATA carriers with the same order will be assessed a single charge per line.

(B) Nonrecurring Charges

Per business or residence line, trunk, or port

Initial Line, or Trunk or Port	TBD
Additional Line, Trunk or Port	TBD

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Effective:

SECTION 12.0 – PROMOTIONAL OFFERINGS

12.1 Special Promotions

The Company may from time to time engage in special promotional trial service offerings of limited duration (not to exceed ninety days on a per Customer basis for non-optional, recurring charges) designed to attract new subscribers or to increase subscriber awareness of a particular tariff offering.

Requests for promotional offerings will be presented to the Commission for its review in accordance with rules and regulations established by the Commission, and will be included in the Carrier's tariff as an addendum to the Carrier's price lists.

12.2 Discounts

The Company may, from time to time as reflected in the price list, offer discounts based on monthly volume (or, when appropriate, "monthly revenue commitment" and/or "time of day" may also be included).

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Effective:

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of May 8, 2003 through May 14, 2003

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this report. Phone: 605-773-3705

TELECOMMUNICATIONS

TC03-082 In the Matter of the Filing for Approval of an Amendment to an Interconnection Agreement between Qwest Corporation and Midcontinent Communications, Inc.

On May 9, 2003, the Commission received a filing for approval of an Amendment to an Interconnection Agreement between Midcontinent Communications, Inc. and Qwest Corporation. According to the parties, the amendment is made in order to add to the agreement the Performance Assurance Plan as approved by the Commission and the Performance Indicator Definitions, as set forth in Attachments 1 and 2 to the amendment. The original agreement was approved by the Commission on May 5, 1999, in Docket No. TC99-023. Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than May 29, 2003. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 05/09/03
Initial Comments Due: 05/29/03

TC03-083 In the Matter of the Filing for Approval of an Amendment to an Interconnection Agreement between Qwest Corporation and McLeodUSA Telecommunications Services, Inc.

On May 9, 2003, the Commission received a filing for approval of an Amendment to an Interconnection Agreement between McLeodUSA Telecommunications Services, Inc. and Qwest Corporation. According to the parties, the amendment is made in order to add the terms, conditions and rates for Unbundled Loops, as set forth in Attachment 1 and Exhibits A and B to the amendment. The original agreement was approved by the Commission on July 23, 1999, in Docket No. TC99-057. Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than May 29, 2003. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 05/09/03
Initial Comments Due: 05/29/03

TC03-084 In the Matter of the Application of X2Comm, Inc. d/b/a DC Communications for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

X2Comm, Inc. d/b/a DC Communications has filed an application for a Certificate of Authority to provide interexchange telecommunications services in South Dakota. The applicant intends to provide inbound (toll free) and outbound long distance services to both residential and business customers. Inbound and outbound services will be available as switched and dedicated service.

Staff Analyst: Bonnie Bjork
Staff Attorney: Karen Cremer
Date Docketed: 05/09/03
Intervention Deadline: 05/30/03

TC03-085 In the Matter of the Application of Covista, Inc. for a Certificate of Authority to Provide Local Exchange Services in South Dakota.

Covista, Inc. has filed an application for a Certificate of Authority to provide resold and facilities based/UNE-P local exchange services in South Dakota.

Staff Analyst: Bonnie Bjork
Staff Attorney: Karen Cremer
Date Docketed: 05/12/03
Intervention Deadline: 05/30/03

TC03-086 In the Matter of the Filing for Approval of an Amendment to an Interconnection Agreement between Qwest Corporation and Sprint Communications Company L.P.

On May 12, 2003, the Commission received a filing for approval of an Amendment to an Interconnection Agreement between Sprint Communications Company L.P. and Qwest Corporation. According to the parties, the agreement is amended by adding terms and conditions for Collocation Available Inventory, as set forth in Attachment 1 and Exhibit A to the amendment. The original agreement was approved by the Commission on November 13, 2001, in Docket No. TC01-151. Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than June 2, 2003. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 05/12/03
Initial Comments Due: 06/02/03

TC03-087 In the Matter of the Filing for Approval of a Boundary Change between West River Telecommunications Cooperative and Qwest Corporation.

West River Telecommunications Cooperative and Qwest Communications have filed a joint petition for Commission approval of an exchange boundary change between West River's McLaughlin Exchange and Qwest's Timber Lake Exchange. Two customers have requested the boundary change in order to be served by West River.

Staff Analyst: Michele Farris
Staff Attorney: Karen Cremer
Date Docketed: 05/14/03
Intervention Deadline: 05/30/03

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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF)	ORDER GRANTING
COVISTA, INC. FOR A CERTIFICATE OF)	CERTIFICATE OF
AUTHORITY TO PROVIDE LOCAL EXCHANGE)	AUTHORITY
SERVICES IN SOUTH DAKOTA)	TC03-085

On May 12, 2003, the Public Utilities Commission (Commission) received an application for a certificate of authority from Covista, Inc. (Covista).

Covista proposes to offer resold and facilities-based UNE-P local service. A proposed tariff was filed by Covista.

On May 15, 2003, the Commission electronically transmitted notice of the filing and the intervention deadline of May 30, 2003, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled June 17, 2003, meeting, the Commission considered Covista's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to rural safeguards, and subject to the condition that Covista not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission. Commission Staff further recommended a waiver of ARSD 20:10:32:03(13).

The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-31, specifically 49-31-69 and ARSD 20:10:32:03. The Commission finds that Covista has met the legal requirements established for the granting of a certificate of authority. Covista has, in accordance with SDCL 49-31-71, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to waive subparagraph (13) of ARSD 20:10:32:03.

The Commission approves Covista's application for a certificate of authority, subject to rural safeguards, and subject to the condition that Covista not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission. The certificate of authority for Covista shall authorize it to offer local exchange services in South Dakota, except in those areas served by a rural telephone company. In the future, should Covista choose to provide local exchange services statewide, with respect to rural telephone companies, Covista will have to come before the Commission in another proceeding before being able to provide local service in that rural service area pursuant to 47 U.S.C. § 253(f) which allows the Commission to require a company that seeks to provide service in a rural service area to meet the requirements in 47 U.S.C. § 214(e)(1) for designation as an eligible telecommunications carrier. In addition, the granting of statewide certification will not affect the exemptions, suspensions, and modifications for rural telephone companies found in 47 U.S.C. § 251(f). It is therefore

ORDERED, that Covista's application for a certificate of authority to provide local exchange services is granted, effective July 9, 2003, subject to the condition that Covista not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission; and it is

FURTHER ORDERED, that Covista shall file informational copies of tariff changes with the Commission as the changes occur; and it is

FURTHER ORDERED, that the Commission shall authorize Covista to offer its local exchange services in South Dakota, except in those areas served by a rural telephone company; and it is

FURTHER ORDERED, that the Commission waives subparagraph (13) of ARSD 20:10:32:03.

Dated at Pierre, South Dakota, this 26th day of June, 2003.

CERTIFICATE OF SERVICE	
The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.	
By:	<u><i>Alaine Kalbo</i></u>
Date:	<u>6/26/03</u>
(OFFICIAL SEAL)	

BY ORDER OF THE COMMISSION:

Robert K. Sahr
ROBERT K. SAHR, Chairman

Gary Hanson
GARY HANSON, Commissioner

James A. Burg
JAMES A. BURG, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted effective July 9, 2003
Docket No. TC03-085

This is to certify that

COVISTA, INC.

is authorized to provide local exchange services in nonrural areas in South Dakota, subject to the condition that it not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission.

This certificate is issued in accordance with SDCL 49-31-69 and ARSD 20:10:32:03, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 26th day of June, 2003.

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:**



Robert K. Sahr

ROBERT K. SAHR, Chairman

Gary Hanson

GARY HANSON, Commissioner

James A. Burg

JAMES A. BURG, Commissioner