EASYLINK SERVICES CORP
Form 10-Q
May 15, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2003

OR

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

Commission File Number 0-26371

EASYLINK SERVICES CORPORATION
(Exact Name of Registrant as Specified in Charter)

Delaware (State or other Jurisdiction of) Incorporation or Organization)	13-3787073 (I.R.S. Employer Identification No.)
33 Knightsbridge Road, Piscataway, NJ (Address of Principal Executive Office)	08854 (Zip Code)

(732) 652-3500
(Registrant's Telephone Number Including Area Code)

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
Yes [ ] No [X]

Common stock outstanding at May 1, 2003: Class A common stock $0.01 par value 41,938,720 shares, and Class B common stock $0.01 par value 1,000,000 shares.

EASYLINK SERVICES CORPORATION
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Easylink Services Corporation
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

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ASSETS

Current assets:

Cash and cash equivalents ....

Accounts receivable, net of allowance for doubtful accounts
$7,557 and $8,052 as of March 31, 2003 and December 31, 2002, respectively ....

Prepaid expenses and other current assets ....

Total current assets ....

Property and equipment, net ....

Goodwill, net ....

Other intangible assets, net ....

Other assets ....

Total assets ....

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:

Accounts payable ....

Accrued expenses ....

Restructuring reserves payable ....

Current portion of capital lease obligations ....

Current portion of notes payable ....

Current portion of capitalized interest on notes payable ....

Deferred revenue ....

Other current liabilities ....

Net liabilities of discontinued operations ....

Total current liabilities ....

Capital lease obligations, less current portion ....

Capitalized interest on notes payable, less current portion ....

Notes payable, less current portion ....

Total liabilities ....

Stockholders' deficit:

Common stock, $0.01 par value; 510,000,000 shares authorized at March 31, 2003 and December 31, 2002, respectively:

Class A--500,000,000 shares authorized at March 31, 2003 and December 31, 2002; 17,564,164 and 16,129,318 shares issued and outstanding at March 31, 2003 and December 31, 2002, respectively ....

Class B--10,000,000 shares authorized at March 31, 2003 and December 31, 2002, respectively, 1,000,000 issued and outstanding at March 31, 2003 and December 31, 2002 ....

Additional paid-in capital ....

Accumulated other comprehensive income (loss) ....

Accumulated deficit ....

Total stockholders' deficit ....

Commitments and contingencies

Total liabilities and stockholders' deficit ....

See accompanying notes to unaudited condensed consolidated financial statements.

EasyLink Services Corporation
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)
(unaudited)

	Three Months End
	2003
Revenues	$ 25,742
Cost of revenues	13,707
Gross profit	12,035
Sales and marketing	5,383
General and administrative	6,740
Product development	1,955
Amortization of intangible assets	517
	14,595
Loss from operations	(2,560)
Other income (expense):	
Interest income	19
Interest expense	(754)
Gain on debt restructurings and settlements	6,640
Other, net	(43)
Total other income (expense), net	5,862
Net income (loss)	$ 3,302
Basic and diluted net income (loss) per share:	
Net income (loss)	$ 0.19
Weighted-average basic and diluted shares outstanding	17,569,987

See accompanying notes to unaudited condensed consolidated financial statements.

EasyLink Services Corporation
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(unaudited)

Cash flows from operating activities:	
Net income (loss)	
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Non-cash interest	
Depreciation and amortization	
Amortization of intangible assets	
Provision for doubtful accounts	
Gain on debt restructuring and settlements	
Other	
Changes in operating assets and liabilities:	
Accounts receivable, net	
Prepaid expenses and other current assets	
Other assets	
Accounts payable, accrued expenses and other current liabilities	
Deferred revenue	
Net cash provided by (used in) operating activities	
Cash flows from investing activities:	
Purchases of property and equipment, including capitalized software	
Net cash used in investing activities	
Cash flows from financing activities:	
Issuance of shares to employee benefit plans	
Payments under capital lease obligations	
Interest payments on restructured notes	
Payments of notes payable	
Net cash used in financing activities	
Effect of foreign exchange rate changes on cash and cash equivalents	
Net decrease in cash and cash equivalents	
Cash used in discontinued operations	
Cash and cash equivalents at beginning of the period	
Cash and cash equivalents at the end of the period	

Supplemental disclosure of non-cash information:

During the three months ended March 31, 2003 and 2002, the Company paid approximately $120,000 and $1.3 million, respectively, for interest.

During the three months ended March 31, 2003, the Company issued shares of Class

A common stock as follows:

The Company issued 210,479 shares of Class A common stock valued at approximately $120,000 as payment for interest in lieu of cash (see Note 2).

The Company issued 154,184 shares of Class A common stock valued at approximately $107,000 in connection with matching contributions to its 401(k) plan.

The Company issued 1,070,183 shares of Class A common stock valued at approximately $501,000 in connection with the cancellation of debt. (See Note 2).

During the three months ended March 31, 2002, the Company issued shares of Class A common stock as follows:

The Company issued 56,075 shares of Class A common stock valued at approximately $314,000 in connection with the divestiture of a subsidiary of the Company's India.com subsidiary.

The Company issued 36,232 shares of Class A common stock valued at approximately $203,000 in connection with the settlement of an indemnification obligation arising out of the sale of Asia.com's eLong.com business, a subsidiary of World.com. The indemnification obligation arose out of a contingent payment obligation owed by eLong.com to the sellers of a business purchased by eLong.com .

The Company issued 11,549 shares of Class A common stock valued at approximately $73,000 in payment of a bonus to an employee.

The Company issued 21,016 shares of Class A common stock valued at approximately $78,000 to a consultant in payment of consulting fees.

Non-cash financing activities:

During the three months ended March 31, 2002, the Company issued 100,000 shares of Class A common stock in a private placement.

See accompanying notes to unaudited condensed consolidated financial statements.

EasyLink Services Corporation

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Operations and Significant Accounting Policies

(a) Summary of Operations

The Company offers a broad range of information exchange services to businesses and service providers, including transaction delivery and management services such as electronic data interchange or "EDI," production messaging services utilizing email, fax and telex; integrated desktop messaging services; document capture and management services and services that protect corporate e-mail systems such as virus protection, spam control and content filtering services.

(b) Unaudited Interim Condensed Consolidated Financial Information

The accompanying interim condensed consolidated financial statements as of March 31, 2003 and for the three months ended March 31, 2003 and 2002 have been prepared by the Company and are unaudited. In the opinion of management, the unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the consolidated financial position of EasyLink Services as of March 31, 2003 and the consolidated results of operations and cash flows for the interim periods ended March 31, 2003 and 2002. The results of operations for any interim period are not necessarily indicative of the results of operations for any other future interim period or for a full fiscal year. The condensed consolidated balance sheet at December 31, 2002 has been derived from audited consolidated financial statements at that date.

For each of the years ended December 31, 2002, 2001 and 2000, the Company received a report from its independent accountants containing an explanatory paragraph stating that the Company suffered recurring losses from operations since inception and has a working capital deficiency that raises substantial doubt about the Company's ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Management believes the Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing or refinancing as may be required, to restructure or eliminate its remaining indebtedness for borrowed money and ultimately to achieve profitable operations. As part of this process, management is continuing its efforts to further reduce total operating costs. In addition, the Company recently announced that it was actively seeking to eliminate substantially all of its outstanding indebtedness and, pursuant to those efforts, the Company eliminated $7.1 million in principal amount of debt during the quarter ended March 31, 2003 in exchange for $0.8 million in cash and the issuance of 1.1 million shares of Class A common stock valued at $0.5 million. Subsequent to March 31, 2003, the Company also eliminated $54.6 million of indebtedness in exchange for $2.3 million in cash and the issuance of 22.3 million shares of Class A common stock valued at $12.1 million. The Company also entered into agreements to repay an outstanding note in the principal amount of $115,000 and accrued interest obligations in the aggregate amount of $959,000 over the next three years, which accrued interest obligations include $284,000 due to George Abi Zeid, a director and officer of the Company and the former sole shareholder of STI. (See Note 4 "Subsequent Events").

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the Securities and Exchange Commission's rules and regulations. It is suggested that these unaudited interim condensed consolidated financial statements be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2002 as included in the Company's Form 10-K filed with the Securities and Exchange Commission on March 31, 2003.

(c) Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned or majority-owned subsidiaries from the dates of acquisition. All other investments the Company does not have the ability to control or exercise significant influence are accounted for under the cost method. The interest of shareholders other than those of EasyLink is recorded as minority interest in the accompanying consolidated statements of operations and consolidated balance sheets. When losses applicable to minority interest holders in a subsidiary exceed the minority interest in the equity capital of the subsidiary, these losses are included in the Company's results, as the minority interest holder has no obligation to provide further financing to the subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

The net liabilities of WORLD.com, a wholly owned subsidiary, and its majority owned subsidiaries, are reported as discontinued operations in the consolidated balance sheets as of March 31, 2003 and 2002 as a result of the sale or discontinuance of the operations of this business in 2001.

Effective January 23, 2002, the Company authorized and implemented a 10-for-1 reverse stock split of all issued and outstanding stock. Accordingly, all issued and outstanding share and per share amounts in the accompanying consolidated financial statements that predate the reverse stock split have been retroactively restated to reflect the reverse stock split.

(d) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. These estimates and assumptions relate to the estimates of collectibility of accounts receivable, the realization of goodwill and other intangibles, accruals and other factors. Actual results could differ from those estimates.

(e) Accounting for Impairment of Long-Lived and Intangible Assets

Effective January 1, 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 142 eliminates the amortization of goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with finite lives and addresses impairment testing and recognition for goodwill and intangible assets. SFAS No. 144 establishes as single model for the impairment of long-lived assets. We assess goodwill for impairment annually unless events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Discounted cash flow analyses are used to assess nonamortizable intangible impairment while undiscounted cash flow analyses are used to assess long-lived asset impairment. If an assessment indicates an impairment, the impaired asset is written down to its fair market value based on the best information available. Estimated fair market value is generally measured with discounted estimated cash flows. Considerable management judgement is necessary to estimate undiscounted and discounted future cash flows. Assumptions used for these cash flows are consistent with internal forecasts. On an on-going basis, management reviews the value and period of amortization or depreciation of long-lived assets, including goodwill and other intangible assets. During this review, we reevaluate the significant assumptions used in determining the original cost of long-lived assets. Although the assumptions may vary from transaction to transaction, they generally include revenue growth, operating results, cash flows and other indicators of value. Management then determines whether there has been a permanent impairment of the value of long-lived assets based upon events or circumstances, which have occurred since acquisition. The impairment policy is consistently applied in evaluating impairment for each of the Company's wholly owned subsidiaries and investments.

(f) Revenue Recognition

The Company's information exchange services include transaction delivery and management services such as electronic data interchange or "EDI," production messaging services utilizing email, fax and telex; integrated desktop messaging services; document capture and management services; and services that protect corporate e-mail systems such as virus protection, spam control and content filtering services. The Company derives revenues from monthly per-message and usage-based charges for its transaction delivery and management services; from monthly per-user or per-message fees for managed e-mail and groupware hosting and virus protection, spam control and content filtering services, and license and consulting fees for our professional services. Revenue from services is recognized as the services are performed.

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Facsimile license revenue is recognized over the average estimated customer life of 3 years. The Company also licenses software under noncancellable license agreements. License fee revenues are recognized when a noncancellable license fee is in force, the product has been delivered and accepted, the license fee is fixed, vendor specific objective evidence exists for the undelivered element and collectibility is reasonably assured. Maintenance and support revenues are deferred and recognized ratably over the term of the related agreements. The Company also may host the software if requested by the customer. The customer has the option to decide who hosts the application. If the Company provides the hosting, revenue from hosting is ratably recognized over the hosting periods. Pursuant to Emerging Issues Task Force 00-3, "Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software on Another Entity's Hardware", if the customer has the option of hosting the software itself or contracting with an unrelated third party to host the software, the hosting fee is ratably recognized over the hosting period.

The Company also enters into supplier arrangements providing bulk services, at a fixed price and minimum quantity to certain customers for a specified period of time. Revenues earned under such arrangements are recognized over the term of the arrangement assuming collection of the resultant receivable is probable.

Deferred revenue represents payments that have been received in advance of the services being performed.

Other revenues include revenues from (i) the sale of domain names, which are recognized at the time when the ownership of the domain name is transferred provided that no significant Company obligation remains and collection of the resulting receivable is probable and (ii) the licensing of domain names wherein revenue is recognized ratably over the license period. To date, such revenues have not been material.

(g) Financial Instruments and Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash, cash equivalents, restricted investments, accounts receivable, notes payable and convertible notes payable.

At March 31, 2003 and December 31, 2002, the fair value of cash, cash equivalents, restricted investments and accounts receivable approximated their financial statement carrying amount because of the short-term maturity of these instruments. The recorded values of notes payable and convertible notes payable approximate their fair values, as interest approximates market rates with the exception of the Convertible Subordinated Notes payable with a carrying value of $22.1 million and $24.1 million at March 31, 2003 and December 31, 2002, respectively, which had an estimated fair value of $5.5 million and $6.0 million at March 31, 2003 and December 31, 2002, respectively, based upon quoted market prices.

Credit is extended to customers based on the evaluation of their financial condition and collateral is not required. The Company performs ongoing credit assessments of its customers and maintains an allowance for doubtful accounts. No single customer exceeded 10% of either total revenues or accounts receivable as of and for the three months ended March 31, 2003. Revenues from the Company's five largest customers accounted for an aggregate of 8% and 6% of the Company's total revenues for the three months ended March 31, 2003 and 2002, respectively.

(h) Basic and Diluted Net Income (Loss) Per Share

Net income (loss) per share is presented in accordance with the provisions of SFAS No. 128, "Earnings Per Share", and the Securities and Exchange Commission Staff Accounting Bulletin No. 98. Under SFAS No. 128, basic Earnings per Share ("EPS") excludes dilution for common stock equivalents and is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and resulted in the issuance of common stock. Diluted net income (loss) per share for the three months ended March 31, 2003 and 2002 is equal to basic net income (loss) per share since all common stock equivalents are anti-dilutive for each of the periods presented.

At March 31, 2003 and 2002, the Company had common stock equivalents of approximately 4.8 million and 8.2 million shares respectively, related to stock options, warrants and convertible debt, that were not included in the computation of net loss per share because they were antidilutive.

(i) Stock Based Compensation

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148"). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation as originally provided by SFAS No. 123 "Accounting for Stock-Based Compensation". Additionally, SFAS 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both the annual and interim financial statements about the method used in reporting results. The transitional requirements of SFAS No. 148 are effective for all financial statements for fiscal years ending after December 31, 2002. We adopted the disclosure portion of this statement for the current fiscal quarter ended March 31, 2003. The application of the disclosure portion of this standard will have no impact on the Company's consolidated financial position or results of operations. The Financial Accounting Standards Board recently indicated that they will require stock-based employee compensation to be recorded as a charge to earnings beginning in 2004. The Company will continue to monitor its progress on the issuance of this standard as well as evaluate its position with respect to current guidance.

As allowed by SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, the Company has retained the compensation measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations for stock options. SFAS No. 148 also requires more prominent and more frequent disclosures in both interim and annual financial statements about the method of accounting for stock-based compensation and the effect of the method used on reporting results. The Company adopted the disclosure provisions of SFAS No. 148 as of December 31, 2002 and continue to apply the measurement provisions of APB 25. Under APB Opinion No. 25, compensation expense is recognized based upon the difference, if any, at the measurement date between the market value of the stock and the option exercise price. The measurement date is the date at which both the number of options and the exercise price for each option are known. The following table illustrates the effect on net income (loss) and net income (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

($ in thousands, except per share amounts)	Quarter ended March 31,	
	2003	2002
Net income (loss):		
As reported.................................	$3,302	$(2,625)
Pro forma...................................	$ 150	$(5,470)
Basic and diluted net income (loss) per share:		
As reported.................................	$ 0.19	$ (0.16)
Pro forma...................................	$ 0.01	$ (0.34)

The resulting effect on the pro forma net income (loss) disclosed for the quarter ended March 31, 2003 and 2002 is not likely to be representative of the effects of the net income (loss) on a pro forma basis in future years, because the pro forma results include only the impact of grants issued to date and related vesting, while subsequent years will include additional grants and vesting. For purposes of pro-forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period.

(j) Comprehensive Income (Loss)

The components of comprehensive income (loss) consist of the following:

	For the three months ended March 31,	
	2003	2002
Net income (loss)	$ 3,302	$(2,652)
Other comprehensive gain:		
Foreign currency translation adjustments	388	145
Comprehensive Income (loss)	$ 3,690	$(2,507)

Accumulated other comprehensive income (loss) at March 31, 2003 and December 31, 2002 solely consists of foreign currency translation adjustments.

(k) Recent Accounting Pronouncements

In November 2002, the FASB issued FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the existing disclosure requirements for most guarantees, including residual value guarantees issued in conjunction with operating lease agreements. It also clarifies that at the time a company issues a guarantee the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements or interim or annual periods ending after December 15, 2002. the adoption of FIN 45 did not have a significant impact on our financial position and results of operations.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities." FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A variable interest entity is a corporation, partnership, trust, or any other legal structures used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has evaluated the impact of FIN 46 and does not believe that it has any investment in variable interest entities.

(2) Notes Payable

During the quarter ended March 31, 2003, the Company entered into separate transactions with debt holders eliminating $7.1 million in indebtedness including $2.0 million of 7% Convertible Subordinated Notes, due February 2005, $2.6 million of 10% Senior Convertible Notes, due January 2006, $2.0 million of 12% Restructure Notes due in 13 quarterly payments beginning June 2003 and $0.5 million of Restructuring balloon payments due October 2004. The Company paid the debt holders $786,000 in cash and issued 1.1 million shares of Class A common stock valued at $501,000 in connection with the transactions. After including the reversal of $685,000 in capitalized interest, $227,000 of accrued interest, debt issuance costs of $26,000 related to certain of the eliminated indebtedness, the Company recorded total gains of $6.6 million on the elimination of debt in the quarter. (See Note 4 Subsequent Events - Restructuring and Settlement of Certain Debt).

Notes payable include the following, in thousands

March 31, 2

	Capitalized Interest	Pr
2000 7% Convertible Subordinated Notes due February 2005	$ --	
2001 10% Senior Convertible Notes due January 2006	4,843	
2001 12% AT&T restructure note due in 13 quarterly payments beginning June 2003	5,160	
2001 12% note payable to former shareholder of STI due in 13 quarterly payments beginning June 2003	997	
2001 12% Restructure notes due in 13 quarterly payments beginning June 2003	--	
2001 Restructuring balloon payments due October 2004	--	
Other	--	
Total notes payable and capitalized interest	11,000	
Less current portion	4,610	
Non current portion	$ 6,390	

(3) Commitments and Contingencies

Master Carrier Agreement

In connection with the acquisition of the EasyLink Services business from AT&T Corp., the Company entered into a Master Carrier Agreement with AT&T. Under this agreement, AT&T will provide the Company with a variety of telecommunications services that are required in connection with the provision of the Company's services. The term of the agreement for network connection services is 36 months through May 2005 and the term of the agreement for private line and satellite services is 36 months through February 2004. Under the agreement, the Company has a minimum revenue commitment for network connection services equal to $3 million for each of the three years of the contract. In addition, we have a minimum revenue commitment for private line and satellite services equal to $375,000 per month during the three-year term. If the Company terminates the network connection services or the private line and satellite services prior to the term or AT&T terminates the services for our breach, the Company must pay to AT&T a termination charge equal to 50% of the unsatisfied minimum revenue commitment for these services for the period in which termination occurs plus 50% of the minimum revenue commitment for each remaining commitment period in the term.

Other Telecommunications Services

The Company has committed to purchase from MCI Worldcom a minimum of $75,000 per month in other telecommunications services through January 2005.

Legal Proceedings

On February 27, 2003, PTEK Holdings, Inc., ("PTEK") one of the Company's principal competitors, announced that it had entered into an agreement with AT&T to purchase 1,423,980 shares of outstanding Class A common stock of the Company held by AT&T and a $10 million promissory note of the Company held by AT&T. In response to PTEK's announcement, the Company commenced on March 17, 2003 an action against AT&T, PTEK, and PTEK's subsidiary, Xpedite Systems, Inc. The suit seeks, among other things, to enjoin AT&T from selling the promissory note held by AT&T to PTEK, to compel AT&T to participate in the Company's current debt restructuring and to enjoin PTEK and Xpedite Systems, Inc. from contacting the Company's creditors and making false statements to the Company's customers and creditors regarding the Company and its financial position. The Court ordered limited document discovery and established a timetable for considering EasyLink's motion, including an oral argument hearing on May 1, 2003. The hearing has been rescheduled for May 22, 2003. AT&T Corp. and PTEK have filed a motion to dismiss EasyLink's complaint or, alternatively, to transfer the action to the Law Division. No assurance can be given as to the outcome of this matter.

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(4) Subsequent Events - Restructuring and Settlement of Certain Debt

Subsequent to March 31, 2003 and through the date hereof, the Company entered into a series of transactions with debt holders to eliminate a total of $54.6 million of indebtedness in exchange for cash payments of $2.3 million and, the issuance of 22.3 million shares of Class A common stock valued at $12.1 million. The eliminated debt includes $19.8 million of 7% Convertible Subordinated Notes, due February 2005, $28.5 million of 10% Senior Convertible Notes, due January 2006, a $2.6 million note payable to the former shareholder of STI (who is an officer and director of the Company), $3.2 million of Restructure notes due in 13 quarterly payments beginning in June 2003 and $0.5 million in other indebtedness. The Company also entered into agreements to repay an outstanding note in the principal amount of $115,000 and accrued interest obligations in the aggregate amount of $959,000 over the next three years, which accrued interest includes $284,000 due to George Abi Zeid, a director and officer of the Company and the former sole shareholder of STI. These transactions will result in a gain of approximately $47 million that the Company will record in the second quarter of 2003 after also eliminating $5.8 million of previously capitalized interest $2.4 million of accrued interest, and $0.3 million of debt issuance costs on the eliminated notes. Also, the transactions relating to the previous $115,000 note and $959,000 of accrued interest shall be accounted for in accordance with Financial Accounting Standards Board Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings."

To partially fund a portion of the cash used in the debt elimination transactions, the Company issued 1.9 million shares of Class A common stock in a private placement to Federal Partners L.P. in exchange for $1.0 million.

The elimination of outstanding debt will result in substantial income from cancellation of debt for income tax purposes. The Company intends to minimize its income tax payable as a result of the restructuring by, among other things, offsetting the income with its historical net operating losses and otherwise reducing the income in accordance with applicable income tax rules. As result, the Company does not expect to incur any material current income tax liability as a result of the elimination of this debt. However, the relevant tax authorities may challenge the Company's income tax positions. No assurance can be given that the Company will be able to offset or otherwise reduce all or any of the cancellation of debt income resulting from the elimination of debt in the second quarter of 2003. If the Company is not able to offset or otherwise reduce the cancellation of debt income, the Company may incur material income tax liabilities as a result of the elimination of debt and the Company may, be unable to pay these liabilities.

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

We make forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 throughout this report. These statements relate to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as "expects," "anticipates," "intends," "believes," "estimates," "plans" and similar expressions. Our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed in the "Risk Factors" section of this report. EasyLink Services Corporation undertakes no obligation to update publicly any forward-looking statements for any reason even if new information becomes available or other events occur in the future.

Unless otherwise indicated or the context otherwise requires, all references to "we," "us," "our" and similar terms refer to EasyLink Services Corporation and its direct and indirect subsidiaries.

Overview

We are a provider of services that power the electronic exchange of information between enterprises, their trading communities and their customers. Every business day, we handle over 800,000 transactions that are integral to the movement of money, materials, products and people in the global economy such as insurance claims, trade and travel confirmations, purchase orders, invoices, shipping notices and funds transfers, among many others. We offer a broad range of information exchange services to businesses and service providers, including electronic data interchange services or "EDI"; production messaging services; integrated desktop messaging services; document capture and management services; boundary and managed email services; and other services largely consisting of legacy real time fax services.

For the three months ended March 31, 2003, total revenues were $25.7 million compared to $30.3 million for the three months ended March 31, 2002. Almost 100% of our revenues in both 2003 and 2002 were generated from companies we acquired prior to January 1, 2002.

Net income was $3.3 million for the three months ended March 31, 2003 as compared to a net loss of $2.7 million for the three months ended March 31, 2002. The 2003 results included gains on debt settlements of $6.6 million.

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We derive revenues primarily from monthly per-message and usage-based charges for our EDI, production messaging and integrated desktop messaging services; and monthly per-user or per-message fees for managed e-mail and groupware hosting services and virus protection, spam control and content filtering services. Our services generate revenue in a number of different ways. We charge our EDI customers per message. Customers of our production messaging services pay consulting fees based upon the level of integration work and set-up requirements plus per-page or per-minute usage charges, depending on the delivery method, for all messages successfully delivered by our network. Customers who purchase our integrated desktop messaging services pay initial site license fees based on the number of user seats being deployed plus per page usage charges for all faxes successfully delivered by our network. For our e-mail and groupware hosting services, customers are billed monthly based upon the number of mailboxes set up and for additional features that they may purchase. For our virus protection, spam and content filtering services, we charge customers either a monthly fee per user or per message charges. Revenue from services is recognized as the services are performed. Facsimile software license revenue is recognized over the average estimated customer life of 3 years.

In light of our limited operating history, we believe that period-to-period comparisons of our revenues and operating results are not meaningful and should not be relied upon as indications of future performance. However, we do believe that the our revenues and operating results in future periods will be more comparable to the results for the three months ended March 31, 2003.

We have experienced declines in revenues for the three months period ended March 31, 2003 as compared to the comparable period ended March 31, 2002. See "Results Of Operations Three Months Ended March 31, 2003 and 2002." The decrease primarily occurred in our production messaging services, which include fax, telex and email hosting, as a result of lower volumes and negotiated customer price reductions. We expect that the declines in revenues from production messaging services may continue in the future. Our strategy to grow revenues and to mitigate the effects of this decline includes the sale of existing and new services to our large base of existing customers, as well as offering our services to new customers. Among the new services that we have recently introduced are trading community enablement services such as Web EDI and document capture and management services. See "Item 1. Business - Our Business Services" contained in our Form 10K filed March 31, 2003.

Our prospects should be considered in light of risks described in the section of this report entitled "Risk Factors That May Affect Future Results."

Critical Accounting Policies

In response to the Securities & Exchange Commission's (SEC) Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," we have identified the most critical accounting principles upon which our financial status depends. Critical principles were determined by considering accounting policies that involve the most complex or subjective decisions or assessments. The most critical accounting policies were identified to be those related to revenue recognition, accounts receivable, impairment of long lived assets, contingencies and litigation and restructuring activities.

Results of operations three months ended March 31, 2003 and 2002

Revenues

Revenues for the three months ended March 31, 2003 were $25.7 million, as compared to $30.3 million for the comparable period in 2002. The decrease of $4.6 million was due primarily to reduced revenues in our production messaging services, which include fax, telex and email hosting, as a result of lower volumes and negotiated customer price reductions. Revenues in the 2003 and 2002 quarters consist almost entirely of revenues from providing information exchange services to businesses and are derived from electronic data interchange services or `EDI"; production messaging services; integrated desktop messaging services; boundary and managed email services; and other services largely consisting of legacy real time fax services.

Cost of Revenues

Cost of revenues for the three months ended March 31, 2003 decreased to $13.7 million as compared to $15.9 million for the comparable period in 2002. However, as a percentage of revenues these costs increased to 53.2% in the 2003 quarter as compared to 52.3% of revenues in the comparable 2002 quarter. The reduction in costs resulted from continuing cost reduction programs and reduced variable telecom charges consistent with reduced customer volumes. Costs increased as a percentage of revenues because of the fixed network expenses and fixed telecom facilities costs included in costs of revenues in comparison to a decrease in revenues from period to period.

Cost of revenues consists primarily of costs incurred in the delivery and support of our services, including depreciation of equipment used in our computer systems, the cost of telecommunications services including local access charges, leased network backbone circuit costs and long distance domestic and international termination charges, and personnel costs associated with our systems and databases as well as our e-mail service.

Sales and Marketing Expenses

Sales and marketing expenses were $5.4 million and $5.3 million for the three months ended March 31, 2003 and 2002, respectively. The marginal increase in these expenses reflects the continued sales and marketing efforts to support our new services and to offset the decrease in revenues experienced in the most recent quarter. Included in this category are costs related to salaries and commissions for sales, marketing, and business development personnel. Also included are costs for promotional programs, trade shows and marketing materials.

General and Administrative Expenses

General and administrative expenses were $6.7 million during the three months ended March 31, 2003 as compared to $7.3 million during the comparable period of 2002. The $0.6 million decrease is the net impact of various cost component changes but the most significant from period to period was a reduction of $0.6 million in our provision for bad debts as a result of improved collection and credit activities.

Product Development Expenses

Product development costs, which consist primarily of personnel and consultants' time and expense to research, conceptualize, and test product launches and enhancements to our products, were $2.0 million for the three months ended March 31, 2003 as compared to $1.8 million in comparable period of 2002. We have currently increased development spending to continue the enhancements to our newer products introduced in the second half of 2002.

Amortization of Other Intangible Assets

As of January 1, 2002 the Company adopted FASB No. 142, "Goodwill and Other Intangibles". Statement No. 142 requires companies to no longer amortize goodwill but instead test goodwill for impairment on an annual basis. Accordingly, we did not amortize any goodwill during the three months ended March 31, 2003 and 2002 respectively. We did an assessment in the 4th quarter of 2002 with the assistance of an independent appraiser and determined that an impairment of goodwill had occurred. Based on a subsequent fair value analysis of the Company's goodwill, other intangible assets and other long-lived assets, we recorded an aggregate impairment of $78.8 million in the 4th quarter of 2002. The impairment of the other intangible assets reduced the basis for future amortization charges resulting in the $1.2 million decrease in amortization charges amounting to $0.5 million in the quarter ended March 31, 2003 as compared to $1.7 million in the same period of 2002.

Other Income (Expense), Net

Interest income for the three months ended March 31, 2003 was $19,000 as compared to $112,000 during the comparable period of 2002. The decrease was due to lower cash balances and lower interest rates on temporary investments.

Interest expense was $0.8 million for the three months ended March 31, 2003 as compared to $1.2 million in the comparable period of 2002. The decrease was primarily due to reductions in the total debt balances outstanding during the quarter ended March 31, 2003 as compared to the same quarter in 2002 as a result of the debt restructurings and settlements completed in the quarter ended March 31, 2003 and the second half of 2002.

Gain on Debt Restructurings and Settlements

In the three months ended March 31, 2003, we eliminated $7.1 million of indebtedness in exchange for the payment of $786,000 in cash and the issuance of 1.1 million shares of Class A common stock valued at $501,000 pursuant to our announced efforts to eliminate substantially all of our outstanding indebtedness. After reversing $685,000 of previously capitalized interest and $201,000 of accrued interest net of debt issuance costs, we recorded a gain of $6.6 million on these transactions.

Liquidity and capital resources

Net cash provided by operating activities was $1.3 million for the three months ended March 31, 2003 in comparison to cash used in operating activities of $0.9 million for the comparable period in 2002. Net income (loss) from period to period increased by $6.0 million from a loss of $2.7 million in 2002 to income of $3.3 million in 2003. The cash provided by operating activity increased by $2.2 million, after accounting for the following 2003 items, which included a $6.6 million gain on debt restructuring and settlements, a $1.0 million decrease in non cash interest, a $1.2 million decrease in amortization of intangibles assets, a $0.6 million decrease in the provision for doubtful accounts, and a net increase of $5.8 million in cash provided by the changes in operating assets and liabilities. The $1.0 million decrease in non cash interest was a result of interest payments being deferred as part of the Company's debt settlement negotiations. The $1.2 million decrease in amortization of intangible assets in 2003, was due to an impairment charge recorded during the quarter ended December 31, 2002.

Net cash used in investing activities for purchases of property and equipment was $2.3 million and $0.8 million for the three months ended March 31, 2003 and 2002, respectively. The expenditures in the 2003 period included $1.1 million related to our new office and network facility.

Net cash used in financing activities was $0.8 million for the three months ended March 31, 2003 as compared to cash used of $0.5 million for the three months ended March 31, 2002. The first quarter of 2003 activity includes $0.8 million in payments to extinguish debt in connection with the previously mentioned debt elimination transactions while the first quarter 2002 amount included $0.4 million in interest payments on restructured notes.

At March 31, 2003, we had $8.1 million of cash and cash equivalents. After March 31, 2003 and through the date hereof, we entered into a series of transactions with debt holders to eliminate a total of $54.6 million of indebtedness in exchange for cash payments of $2.3 million and the issuance of 22.3 million shares of Class A common stock valued at $12.1 million. We also entered into agreements to repay an outstanding note in the principal amount of $115,000 and accrued interest obligations in the aggregate amount of $959,000 over the next three years, including $284,000 due to George Abi Zeid, a director and officer of the Company and the former sole shareholder of STI. To partially fund a portion of the cash used in the debt elimination transactions, we issued 1.9

million shares of Class A common stock in a private placement in exchange for $1.0 million. After giving effect to these debt elimination transactions, our principal commitments consist of $2.3 million in subordinated convertible notes due in 2005; $12.7 million in principal amount of notes and other obligations due in installments beginning in June 2003; approximately $3.7 million in accrued interest obligations payable over one to three years through 2006; and obligations under capital leases of $592,000; commitments for telecommunications services.

For the years ended December 31, 2002, 2001 and 2000, we received a report from our independent accountants containing an explanatory paragraph stating that we suffered recurring losses from operations since inception and have a working capital deficiency that raise substantial doubt about our ability to continue as a going concern. As of March 31, 2003, the Company had a stockholders' net deficit of $57.4 million and debt obligations of $9.2 million payable within one year. Although the Company's outstanding debt and stockholders' deficit have been substantially reduced subsequent to March 31, 2003, the remaining principal and interest payments due within one year from March 31, 2003, after giving affect to those subsequent events, amount to $5.8 million. We believe that the Company may need additional financing to meet this debt service requirement and other cash requirements for its operations. However, if we are unable to raise additional financing, restructure or settle additional outstanding debt or generate sufficient cash flow, we may be unable to continue as a going concern.

Our unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern. We believe our ability to continue as a going concern is dependent upon our ability to generate sufficient cash flow to meet our obligations on a timely basis, to obtain additional financing or refinancing as may be required, and ultimately to achieve profitable operations. Management is continuing the process of further reducing operating costs and increasing its sales efforts. There can be no assurance that the Company will be successful in these efforts.

Sales of additional equity securities could result in additional dilution to our stockholders. In addition, on an ongoing basis, we continue to evaluate potential acquisitions to complement our business messaging services. In order to complete these potential acquisitions, we may need additional equity or debt financing in the future.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk, primarily from changes in interest rates, foreign exchange rates and credit risk. The Company maintains continuing operations in Europe (mostly in England) and, to a lesser extent, in Singapore and Malaysia. Fluctuations in exchange rates may have an adverse effect on the Company's results of operations and could also result in exchange losses. The impact of future rate fluctuations cannot be predicted adequately. To date the Company has not sought to hedge the risks associated with fluctuations in exchange rates.

Market Risk - Our accounts receivables are subject, in the normal course of business, to collection risks. We regularly assess these risks and have established policies and business practices to protect against the adverse effects of collection risks. As a result we do not anticipate any material losses in this area.

Interest Rate Risk - Interest rate risk refers to fluctuations in the value of a security resulting from changes in the general level of interest rates. Investments that are classified as cash and cash and equivalents have original maturities of three months or less. Changes in the market's interest rates do not affect the value of these investments. Marketable securities are comprised of U.S. Treasury Notes and are classified as available-for-sale and subject to interest rate fluctuations.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

We have only a limited operating history and some of our services are in a new and unproven industry.

We have only a limited operating history upon which you can evaluate our business and our prospects. Easylink was incorporated under the name Globecomm, Inc. in 1994 in the State of Delaware. We launched our business by offering a commercial email service in November 1996 under the name iName. We changed our company name to Mail.com, Inc. in January 1999. In February 2000, we acquired NetMoves Corporation, a provider of a variety of transaction delivery services to businesses. In March 2000, we formed WORLD.com to develop and operate our domain name properties as independent Web sites. In the fourth quarter of 2000, we announced our intention to focus exclusively on the business market and to sell all assets not related to this business. In February 2001, we acquired Swift Telecommunications, Inc. which had contemporaneously acquired the EasyLink Services business from AT&T Corp. The EasyLink Services business is a provider of transaction delivery services such as electronic data interchange or EDI and production messaging services. Swift was a provider of production messaging services, principally telex services. On March 30, 2001, we announced that we had sold our advertising network business to Net2Phone, Inc. and on May 3, 2001 our Asia.com, Inc. subsidiary completed the sale of its business. In October 2001, we sold a subsidiary of India.com, Inc. and have since ceased the conduct of the portal operations of India.com, Inc. In January 2002, we announced our strategy to expand our position in the transaction delivery segment of the electronic commerce market and to begin to offer to our large customer base related transaction management services that automate more components of our customers' business processes. In 2002, we commercially introduced two such services - Trading Community Enablement and Management Services and Document Capture and Management Services. Our success will depend in part upon our ability to maintain or expand our sales of transaction delivery services such as EDI, production messaging and integrated desktop messaging to enterprises, our ability to successfully develop transaction management services, the development of a viable market for fee-based transaction delivery and transaction management services on an outsourced basis and our ability to compete successfully in those markets. For the reasons discussed in more detail below, there are substantial obstacles to our achieving and sustaining profitability.

We have incurred losses since inception.

We have not achieved profitability in any fiscal year, and we may not be able to achieve or sustain profitability. We incurred a net loss of $85.8 million for the year ended December 31, 2002. We had net income of $3.3 million for the three months ended March 31, 2003; however, this amount included $6.6 million from a gain on debt restructuring and settlements. We had an accumulated deficit of $596.0 million as of March 31, 2003. We intend to upgrade and enhance our technology, continue our international expansion, and improve and expand our management information and other internal systems. We intend to continue to make strategic acquisitions and investments where resources permit, which may result in significant amortization of intangibles and other expenses or a later impairment charge arising out of the write-off of goodwill booked as a result of such acquisitions or investments. We are making these expenditures in anticipation of higher revenues, but there will be a delay in realizing higher revenues even if we are successful. We have experienced declining revenues for the year ended December 31, 2002 as compared to the comparable period ended December 31, 2001 and for the three months period ended March 31, 2003 as compared to the comparable period ended March 31, 2002. See Part II, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Form 10-K filed March 31, 2003 and Part I, Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations contained herein. If we do not succeed in substantially increasing our revenues or integrating the EasyLink Services and Swift businesses with our historical business, our losses may continue.

If we are unable to raise necessary capital in the future, we may be unable to invest in the growth of our business or fund necessary expenditures.

We may need to raise additional capital in the future. See Part I. Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources. At March 31, 2003, we had $8.1 million of cash, cash equivalents and marketable securities. Our principal commitments consist of subordinated convertible notes, senior convertible notes, notes payable, obligations under capital leases, accounts payable and other current obligations, commitments for capital expenditures and commitments for telecommunications services. For each of the three years ended December 31, 2002, 2001 and 2000, we received a report from our independent accountants containing an explanatory paragraph stating that we suffered recurring losses from operations since inception and have a working capital deficiency that raise substantial doubt about our ability to continue as a going concern. We may need additional financing to invest in the growth of our business and to pay other obligations, and the availability of such financing when needed, on terms acceptable to us, or at all, is uncertain. See "Risk Factors - We have incurred significant indebtedness for money borrowed, and we may be unable to pay debt service on this indebtedness." If we are unable to raise additional financing, generate sufficient cash flow, or restructure our debt obligations before they become due and payable, we may be unable to continue as a going concern.

If we raise additional funds by issuing equity securities or debt convertible into equity securities, stockholders may experience significant dilution of their ownership interest. The amount of dilution resulting from issuance of additional shares of Class A common stock and securities convertible into Class A common stock and the potential dilution that may result from future issuances has significantly increased in light of the decline in our stock price. Moreover, we could issue preferred stock that has rights senior to those of the Class A common stock. Some of our stockholders have registration rights that could interfere with our ability to raise needed capital. If we raise funds by issuing debt, our lenders may place limitations on our operations, including our ability to pay dividends.

We have incurred significant indebtedness for money borrowed, and we may be unable to pay debt service on this indebtedness.

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After giving effect to the elimination of debt through May 1, 2003, we have outstanding $2.3 million in subordinated convertible notes due in 2005; $12.7 million in principal amount of notes and other obligations due in installments beginning in June 2003; approximately $3.7 million in accrued interest obligations payable over one to three years through 2006; and obligations under capital leases and commitments for telecommunications services. We currently have $5.8 million in principal and cash interest payments due during the twelve month period after March 31, 2003. We had an operating loss and negative cash flow for the year ended December 31, 2002. In addition, we have a substantial amount of outstanding accounts payable and other obligations. Accordingly, cash generated by our operations would have been insufficient to pay the amount of principal and interest payable annually on our outstanding indebtedness or to pay our other obligations.

We have eliminated an additional $54.6 million principal amount of indebtedness since March 31, 2003 and are seeking to eliminate substantially all of our remaining indebtedness for borrowed money. We cannot assure you that we will be able to successfully complete the elimination of any other indebtedness that we are seeking to eliminate on favorable terms or at all. On February 27, PTEK Holdings, Inc., one of our principal competitors, announced that it had entered into an agreement with AT&T to purchase 1,423,980 shares of outstanding Class A common stock of EasyLink held by AT&T and a promissory note in the principal amount of $10 million of EasyLink held by AT&T. In response to PTEK's announcement, we commenced on March 17, 2003 an action against AT&T Corp., PTEK Holdings, Inc. and PTEK's subsidiary Xpedite Systems, Inc. The suit seeks, among other things, to enjoin AT&T from selling the EasyLink promissory note held by AT&T to PTEK and to compel AT&T to participate in EasyLink's current debt restructuring. See Part II, Item 1, Legal Proceedings. EasyLink believes that if the sale of the note to PTEK is permitted to occur and AT&T is not compelled to participate in EasyLink's debt restructuring, EasyLink may be unable to meet some or all of the payments on this debt or its available cash will be significantly constrained. Easylink has a variety of commercial relationships with AT&T, and this dispute may have an adverse effect on these relationships.

If we are unable to complete the elimination of our remaining debt on favorable terms, we cannot assure you that we will be able to pay interest and other amounts due on our outstanding indebtedness, or our other obligations, on the scheduled dates or at all. If our cash flow and cash balances are inadequate to meet our obligations, we could face substantial liquidity problems. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we otherwise fail to comply with any covenants in our indebtedness, we would be in default under these obligations, which would permit these lenders to accelerate the maturity of the obligations and could cause defaults under our indebtedness. Any such default could have a material adverse effect on our business, results of operations and financial condition. We cannot assure you that we would be able to repay amounts due on our indebtedness if payment of the indebtedness were accelerated following the occurrence of an event of default under, or certain other events specified in, the agreements governing our outstanding indebtedness and capital leases, including any deemed sale of all or substantially all of our assets.

The elimination of outstanding debt pursuant to our debt restructuring strategy will result in substantial cancellation of debt income for income tax purposes. We intend to minimize income tax payable as a result of the restructuring by, among other things, offsetting the income with our historical net operating losses and otherwise reducing the income in accordance with applicable income tax rules. As result, we do not expect to incur any material current income tax liability as a result of the elimination of this debt. However, the relevant tax authorities may challenge our income tax positions, including the use of our historical net operating losses to offset some or all of the cancellation of debt income and the application of the income tax rules reducing the cancellation of debt income. No assurance can be given that we will be able to offset or otherwise reduce all or any of the cancellation of debt income resulting from the elimination of debt pursuant to our debt restructuring. If we are not able to offset or otherwise reduce the cancellation of debt income, we may incur material income tax liabilities as a result of the elimination of debt and we may, be unable to pay these liabilities.

We may incur substantial additional indebtedness in the future. The level of our indebtedness, among other things, could (1) make it difficult for us to make payments on our indebtedness, (2) make it difficult to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes, (3) limit our flexibility in planning for, or reacting to changes in, our business, and (4) make us more vulnerable in the event of a downturn in our business.

We intend to continue to acquire, or make strategic investments in, other businesses and acquire or license technology and other assets and we may have difficulty integrating these businesses or generating an acceptable return.

We have completed a number of acquisitions and strategic investments since our initial public offering. For example, we acquired NetMoves Corporation, a provider of production messaging services and integrated desktop messaging services to businesses, and The Allegro Group, Inc., a provider of email and email related services, such as virus blocking and content screening, to businesses. We also acquired Swift Telecommunications, Inc. and the EasyLink Services business that it had contemporaneously acquired from AT&T Corp. We will continue our efforts to acquire or make strategic investments in businesses and to acquire or license technology and other assets, and any of these acquisitions may be material to us. We cannot assure you that acquisition or licensing opportunities will continue to be available on terms acceptable to us or at all. Such acquisitions involve risks, including:

- inability to raise the required capital;
- difficulty in assimilating the acquired operations and personnel;
- inability to retain any acquired member or customer accounts;
- disruption of our ongoing business;
- the need for additional capital to fund losses of acquired businesses;
- inability to successfully incorporate acquired technology into our service offerings and maintain uniform standards, controls, procedures and policies; and
- lack of the necessary experience to enter new markets.

We may not successfully overcome problems encountered in connection with potential acquisitions. In addition, an acquisition could materially impair our operating results by diluting our stockholders' equity, causing us to incur additional debt or requiring us to amortize acquisition expenses and acquired assets or to incur impairment charges as a result of the write-off of goodwill booked as a result of such acquisition.

We may be unable to successfully complete the migration of the network relating to our business acquired from AT&T off of AT&T premises.

On February 23, 2001, we completed the acquisition of Swift Telecommunications, Inc. which had contemporaneously acquired the EasyLink Services business of AT&T Corp. The EasyLink Services business acquired from AT&T provides a variety of transaction delivery services. This business was a division of AT&T and was not a separate independent operating entity. We hired only a portion of the employees of the business.

Under a Transition Services Agreement entered into in connection with the acquisition, AT&T agreed to provide us with a variety of services to enable us to continue to operate the business pending the transition to EasyLink. We have successfully transitioned virtually all of these services provided by AT&T under the Transition Services Agreement to ourselves, including customer service, network operations center, telex switching equipment and services and office space in a variety of locations. However, the network for the portion of this business relating to EDI, fax and email services continues to reside on AT&T's premises, but is being operated and maintained by EasyLink. We plan to migrate our network off of AT&T's premises to EasyLink's premises over the next two years.

We cannot assure you that we will be able to successfully migrate the remaining EasyLink Services network from AT&T's premises to our own premises, or successfully integrate them into our operations, in a timely manner or without incurring substantial unforeseen expense or without service interruption to our customers. Even if successfully migrated, we may be unable to operate the business at expense levels that are ultimately profitable for us. We cannot assure you that we will be able to retain all of the customers of the EasyLink Services business. Our inability to successfully migrate, integrate or operate the network and operations, or to retain customers, of the EasyLink Services business will result in a material adverse effect on our business, results of operations and financial condition.

Outsourcing of transaction delivery and transaction management services may not prove to be viable businesses.

An important part of our business strategy is to leverage our existing global customer base and global network by continuing to provide our existing transaction delivery services and by offering these customers additional transaction delivery and new transaction management services in the future. The market for transaction management services is only beginning to develop. Our success will depend on the continued expansion of the market for outsourced transaction delivery services such as EDI, production messaging services and integrated desktop messaging services and the development of viable markets for the outsourcing of additional transaction delivery services and new transaction management services. Each of these developments is somewhat speculative.

There are significant obstacles to the full development of a sizable market for the outsourcing of transaction delivery and transaction management services. Outsourcing is one of the principal methods by which we will attempt to reach the size we believe is necessary to be successful. Security and the reliability of the Internet, however, are likely to be of concern to enterprises and service providers deciding whether to outsource their transaction delivery and transaction management or to continue to provide it themselves. These concerns are likely to be particularly strong at larger businesses and service providers, which are better able to afford the costs of maintaining their own systems. While we intend to focus exclusively on our outsourced transaction delivery and transaction management services, we cannot be sure that we will be able to maintain or expand our business customer base. In addition, the sales cycle for many of these services is lengthy and could delay our ability to generate revenues in this market.

Our strategy of developing and offering to existing customers additional transaction delivery and transaction management services may be unsuccessful.

As part of our business strategy, we plan to develop and offer to existing customers additional transaction delivery and transaction management services that will automate more of our customers business processes. We cannot assure you that we will be able to successfully develop these additional services in a timely manner or at all or, if developed, that our customers will purchase these services or will purchase them at prices that we wish to charge. Standards for pricing in the market for new transaction delivery and transaction management services are not yet well defined and some businesses and service providers may not be willing to pay the fees we wish to charge. We cannot assure you that the fees we intend to charge will be sufficient to offset the related costs of providing these services.

We may fail to meet market expectations because of fluctuations in our quarterly operating results, which would cause our stock price to decline.

We may experience significant fluctuations in our quarterly results. It is likely that our operating results in some quarters will be below market expectations. In this event, the price of our Class A common stock is likely to decline.

The following are among the factors that could cause significant fluctuations in our operating results:

- incurrence of other cash and non-cash accounting charges, including charges resulting from acquisitions or dispositions of assets, including from the disposition of our remaining non-core assets, and write-downs of impaired assets;

- increases or decreases in the number of transactions generated by our customers (such as insurance claims, trade and travel confirmations, purchase orders, invoices, shipping notices, funds transfers, among others), which is affected by factors that affect specific customers, the respective industries in which our customers conduct business and the economy generally;

- non-cash charges associated with repriced stock options, if our stock price rises above $16.90;

- system outages, delays in obtaining new equipment or problems with planned upgrades;

- disruption or impairment of the Internet;

- demand for outsourced transaction delivery and transaction management services;

- attracting and retaining customers and maintaining customer satisfaction;

- introduction of new or enhanced services by us or our competitors;

- changes in our pricing policy or that of our competitors;

- changes in governmental regulation of the Internet and transaction delivery and transaction management services in particular; and

- general economic and market conditions and global political factors.

Other such factors in our non-core assets include:

- incurrence of additional expenditures without receipt of offsetting revenues pending the sale of these assets.

We may incur significant stock based compensation charges related to repriced options if our stock price rises above $16.90.

In light of the decline in our stock price and in an effort to retain our employee base, on November 14, 2000, the Company offered to certain of its employees, officers and directors, other than Gerald Gorman, the right to reprice certain outstanding stock options to an exercise price equal to $16.90 per share, the closing price of the Company's Class A common stock on Nasdaq on November 14, 2000 as adjusted for our reverse stock split effected on January 23, 2002. Options to purchase 632,799 shares were repriced. The repriced options vest at the same rate that they would have vested under their original terms. In March 2000, Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25" ("Interpretation"). Among other issues, this Interpretation clarifies (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. As a result, under the Interpretation, stock options repriced after December 15, 1998 are subject to variable plan accounting treatment. This guidance requires the Company to remeasure compensation cost for outstanding repriced options each reporting period based on changes in the market value of the underlying common stock. If our stock price rises above the $16.90 exercise price of the repriced options, this accounting treatment may result in significant non-cash compensation charges in future periods.

Several of our competitors have substantially greater resources, longer operating histories, larger customer bases and broader product offerings.

Our business is, and we believe will continue to be, intensely competitive. See "Part I Item 1 - Business - Competition" in our Form 10-K filed March 31, 2003 and subsequent reports filed with the Securities and Exchange Commission.

Many of our competitors have greater market presence, engineering and marketing capabilities, and financial, technological and personnel resources than those available to us. As a result, they may be able to develop and expand their communications and network infrastructures more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily, and devote greater resources to the marketing and sale of their products and services. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their services to address the needs of our current and prospective customers. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. In addition to direct competitors, many of our larger potential customers may seek to internally fulfill their messaging needs through the deployment of their own on premises messaging systems.

Some of our competitors provide a variety of telecommunications services and other business services, as well as software and hardware solutions, in addition to transaction delivery or transaction management services. The ability of these competitors to offer a broader suite of complementary services and software or hardware may give them a considerable advantage over us.

The level of competition is likely to increase as current competitors increase the sophistication of their offerings and as new participants enter the market. In the future, as we expand our service offerings, we expect to encounter increased competition in the development and delivery of these services. We may not be able to compete successfully against our current or future competitors.

We have aggressively expanded our operations in anticipation of continued growth in our business and as a result of our acquisitions. We have also developed the technology and infrastructure to offer a range of services in our target market. This expansion has placed, and we expect it to continue to place, a significant strain on our managerial, operational and financial resources. If we cannot manage our growth effectively, our business, operating results and financial condition will suffer.

It is difficult to retain key personnel and attract additional qualified employees in our business and the loss of key personnel and the burden of attracting additional qualified employees may impede the operation and growth of our business and cause our revenues to decline.

Our future success depends to a significant extent on the continued service of our key technical, sales and senior management personnel, but they have no contractual obligation to remain with us. In particular, our success depends on the continued service of Gerald Gorman, our Chairman, Thomas Murawski, our President and Chief Executive Officer, George Abi Zeid, our President-International Operations, and Debra McClister, our Executive Vice President and Chief Financial Officer. The loss of the services of Messrs. Gorman, Murawski or Abi Zeid or of Ms. McClister, or several other key employees, would impede the operation and growth of our business.

To manage our existing business and handle any future growth, we will have to attract, retain and motivate additional highly skilled employees. In particular, we will need to hire and retain qualified sales people if we are to meet our sales goals. We will also need to hire and retain additional experienced and skilled technical personnel in order to meet the increasing technical demands of our expanding business. Competition for employees in messaging-related businesses is intense. We have in the past experienced, and expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. If we are unable to do so, our management may not be able to effectively manage our business, exploit opportunities and respond to competitive challenges.

Our business is heavily dependent on technology, including technology that has not yet been proven reliable at high traffic levels and technology that we do not control.

The performance of our computer systems is critical to the quality of service we are able to provide to our customers. If our services are unavailable or fail to perform to their satisfaction, they may cease using our service. In addition, our agreements with several of our customers establish minimum performance standards. If we fail to meet these standards, our customers could terminate their relationships with us and assert claims for monetary damages.

We may need to upgrade our computer systems to accommodate increases in traffic and to accommodate increases in the usage of our services, but we may not be able to do so while maintaining our current level of service, or at all.

We must continue to expand and adapt our computer systems as the number of customers and the amount of information they wish to transmit increases and as their requirements change, and as we further develop our services. Because we have only been providing some of our services for a limited time, and because our computer systems for these services have not been tested at greater capacities, we cannot guarantee the ability of our computer systems to connect and manage a substantially larger number of customers or meet the needs of business customers at high transmission speeds. If we cannot provide the necessary service while maintaining expected performance, our business would suffer and our ability to generate revenues through our services would be impaired.

The expansion and adaptation of our computer systems will require substantial financial, operational and managerial resources. We may not be able to accurately project the timing of increases in traffic or other customer requirements. In addition, the very process of upgrading our computer systems could cause service disruptions. For example, we may need to take various elements of the network out of service in order to install some upgrades.

Our computer systems may fail and interrupt our service.

Our customers have in the past experienced interruptions in our services. We believe that these interruptions will continue to occur from time to time. These interruptions are due to hardware failures, failures in telecommunications and other services provided to us by third parties and other computer system failures. These failures have resulted and may continue to result in significant disruptions to our service. Some of our operations have redundant switch-over capability. Although we plan to install backup computers and implement procedures on other parts of our operations to reduce the impact of future malfunctions in these systems, the presence of single points of failure in our network increases the risk of service interruptions. In addition, substantially all of our computer and communications systems relating to our services are currently located in Manhattan, Jersey City, New Jersey, Piscataway, New Jersey, Washington, DC, Bridgeton, Missouri and Dayton, Ohio. We currently do not have alternate sites from which we could conduct these operations in the event of a disaster. Our computer and communications hardware is vulnerable to damage or interruption from fire, flood, earthquake, power loss, telecommunications failure and similar events. Our services would be suspended for a significant period of time if any of our primary data centers was severely damaged or destroyed. We might also lose customer transaction documents and other customer files, causing significant customer dissatisfaction and possibly giving rise to claims for monetary damages. As a result of the recent relocation of our corporate headquarters during the first quarter of 2003, we plan to consolidate over time an increasing portion of our computer systems and networks at the new location. This consolidation may result in interruptions in our services to some of our customers.

Our services will become less desirable or obsolete if we are unable to keep up with the rapid changes characteristic of our business.

Our success will depend on our ability to enhance our existing services and to introduce new services in order to adapt to rapidly changing technologies, industry standards and customer demands. To compete successfully, we will have to accurately anticipate changes in business demand and add new features to our services very rapidly. We may not be able to integrate the necessary technology into our computer systems on a timely basis or without degrading the performance of our existing services. We cannot be sure that, once integrated, new technology will function as expected. Delays in introducing effective new services could cause existing and potential customers to forego use of our services and to use instead those of our competitors.

Our business will suffer if we are unable to provide adequate security for our service, or if our service is impaired by security measures imposed by third parties.

Security is a critical issue for any outsourced transaction delivery or transaction management service, and presents a number of challenges for us.

If we are unable to maintain the security of our service, our reputation and our ability to attract and retain customers may suffer, and we may be exposed to liability. Third parties may attempt to breach our security or that of our customers whose networks we may maintain or for whom we provide services. If they are successful, they could obtain information that is sensitive or confidential to a customer or otherwise disrupt a customer's operations or obtain confidential information, including our customer's profiles, passwords, financial account information, credit card numbers, stored email or other personal or business information. Our customers or their employees may assert claims for money damages for any breach in our security and any breach could harm our reputation.

Our computers are vulnerable to computer viruses, physical or electronic break-ins and similar incursions, which could lead to interruptions, delays or loss of data. We expect to expend significant capital and other resources to license or create encryption and other technologies to protect against security breaches or to alleviate problems caused by any breach. Nevertheless, these measures may prove ineffective. Our failure to prevent security breaches may expose us to liability and may adversely affect our ability to attract and retain customers and develop our business market. Security measures taken by others may interfere with the efficient operation of our service, which may harm our reputation, adversely impact our ability to attract and retain customers. "Firewalls" and similar network security software employed by third parties can interfere with the operation of our services.

Our customers are subject to, and in turn require that their service providers meet, increasingly strict guidelines for network and operational security. If we are unable to meet the security requirements of a customer, we may be unable to obtain or keep their business.

We are dependent on licensed technology.

We license a significant amount of technology from third parties, including technology related to our virus protection, spam control and content filtering services, Internet fax services, billing processes and database. We anticipate that we will need to license additional technology to remain competitive. We may not be able to license these technologies on commercially reasonable terms or at all. Third-party licenses expose us to increased risks, including risks relating to the integration of new technology, the diversion of resources from the development of our own proprietary technology, a greater need to generate revenues sufficient to offset associated license costs, and the possible termination of or failure to renew an important license by the third-party licensor.

If the Internet and other third-party networks on which we depend to deliver our services become ineffective as a means of transmitting data, the benefits of our service may be severely undermined.

Our business depends on the effectiveness of the Internet as a means of transmitting data. The recent growth in the use of the Internet has caused frequent interruptions and delays in accessing and transmitting data over the Internet. Any deterioration in the performance of the Internet as a whole could undermine the benefits of our services. Therefore, our success depends on improvements being made to the entire Internet infrastructure to alleviate overloading and congestion. We also depend on telecommunications network suppliers such as AT&T Corp. and Worldcom for a variety of telecommunications and Internet services. The network for the EasyLink Services business acquired from AT&T continues to reside on AT&T's premises. See "Risk Factors - We May Be Unable to Successfully Integrate the EasyLink Services Business Acquired From AT&T" above, "Item 1. Business - Technology" in our Form 10-K filed March 31, 2003 and subsequent filings with the Securities and Exchange Commission.

Gerald Gorman and George Abi Zeid collectively beneficially owned as of May 1, 2003 approximately 27.69% of the total outstanding voting power of EasyLink and will be able to exert significant influence over any vote of stockholders.

After giving effect to the issuance of additional shares pursuant to our recent debt elimination, Gerald Gorman, our Chairman, beneficially owned as of May 1, 2003 Class A and Class B common stock representing approximately 19.75% of the voting power of our outstanding common stock. Each share of Class B common stock entitles the holder to 10 votes on any matter submitted to the stockholders. George Abi Zeid, our President-International Operations and Director, beneficially owned as of February 28, 2003 Class A common stock representing approximately 7.94% of the voting power of our outstanding common stock. Based on their voting power as of May 1, 2003, Mr. Gorman and Mr. Abi Zeid will likely be able to exert significant influence over the outcome of all matters requiring stockholder approval, including the election of directors, amendment of our charter and approval of significant corporate transactions. Mr. Gorman and Mr. Abi Zeid may be in a position to prevent a change in control of EasyLink even if other stockholders holding a majority of the voting power of the shares not held by Mr. Gorman and Mr. Abi Zeid were in favor of the transaction.

We have agreed to permit Federal Partners, L.P., a holder of our senior convertible notes and Class A common stock, to designate one member of our board of directors. In addition, in connection with the acquisition of Swift Telecommunications, Inc., we agreed to appoint George Abi Zeid, the former sole shareholder of Swift, as a director and as our President of International Operations.

Our charter contains provisions that could deter or make more expensive a takeover of EasyLink. These provisions include the ability to issue "blank check" preferred stock without stockholder approval.

Our goal of building brand identity is likely to be difficult and expensive.

We announced on April 2, 2001 that we have changed our corporate name to EasyLink Services Corporation to more accurately reflect the strengths, relationships and solutions that we offer. We believe that a quality brand identity will be essential if we are to develop our business services market. If our marketing efforts cost more than anticipated or if we cannot increase our brand awareness, our losses will increase and our ability to succeed will be seriously impeded.

Our expansion into international markets is subject to significant risks and our losses may increase and our operating results may suffer if our revenues from international operations do not exceed the costs of those operations.

We intend to continue to expand into international markets and to expend significant financial and managerial resources to do so. We may not be able to compete effectively in international markets. If our revenues from international operations do not exceed the expense of establishing and maintaining these operations, our losses will increase and our operating results will suffer. We face significant risks inherent in conducting business internationally, such as:

- uncertain demand in foreign markets for transaction delivery and transaction management services;
- difficulties and costs of staffing and managing international operations;
- differing technology standards;
- difficulties in collecting accounts receivable and longer collection periods;
- economic instability and fluctuations in currency exchange rates and imposition of currency exchange controls;
- potentially adverse tax consequences;
- regulatory limitations on the activities in which we can engage and foreign ownership limitations on our ability to hold an interest in entities through which we wish to conduct business;
- political instability, unexpected changes in regulatory requirements, and reduced protection for intellectual property rights in some countries;
- export restrictions, and
- difficulties in enforcing contracts and potentially adverse consequences.

Regulation of transaction delivery and transaction management services and Internet use is evolving and may adversely impact our business.

There are currently few laws or regulations that specifically regulate activity on the Internet. However, laws and regulations may be adopted in the future that address issues such as user privacy, pricing, and the characteristics and quality of products and services. For example, the Telecommunications Act of 1996 restricts the types of information and content transmitted over the Internet. Several telecommunications companies have petitioned the FCC to regulate ISPs and online service providers in a manner similar to long distance telephone carriers and to impose access fees on these companies. This could increase the cost of transmitting data over the Internet. Any new laws or regulations relating to the Internet could adversely affect our business.

Moreover, the extent to which existing laws relating to issues such as property ownership, pornography, libel and personal privacy are applicable to the

Internet is uncertain. We could face liability for defamation, copyright, patent or trademark infringement and other claims based on the content of messages transmitted over our system. We may also face liability for unsolicited commercial and other email and fax messages sent by users of our services. We do not and cannot screen all the content generated and received by users of our services. Some foreign governments, such as Germany, have enforced laws and regulations related to content distributed over the Internet that are more strict than those currently in place in the United States.

A majority of our services are currently classified by the FCC as "information services," and therefore are exempt from public utility regulation. To the extent that we are permitted to offer all of our services as a single "bundle of interrelated products," then the whole bundle is currently exempt from regulation as a "hybrid service." If considered independent of the bundle, however, our fax-to-fax services, when conducted over circuit-switched network lines, and our telex services, qualify as "telecommunications services," and would thus be subject to federal regulation. Moreover, while the FCC has until now exercised forbearance in regulating IP communications, it has indicated that it might regulate certain IP communications as "telecommunications services" in the future. There can be no assurance that the FCC will not change its regulatory classification system and thereby subject us to unexpected and burdensome additional regulation. In addition, a variety of states regulate certain of our services when provided on an intrastate basis.

We obtained authorizations from the FCC to provide such telecommunications services in conjunction with our acquisition of these telecommunications services from NetMoves, and are classified as a "non-dominant interexchange carrier." While the FCC has generally chosen not to exercise its statutory power to closely regulate the charges or practices of non-dominant carriers, it will act upon complaints against such carriers for failure to comply with statutory obligations or with the FCC's rules, regulations and policies - to the extent that such services are, in the FCC's view, subject to regulation.

Continued changes in telecommunications regulations may significantly reduce the cost of domestic and international calls. To the extent that the cost of domestic and international calls decreases, we will face increased competition for our fax services which may have a material adverse effect on our business, financial condition or results in operations.

In connection with the deployment of Internet-capable nodes in countries throughout the world, we are required to satisfy a variety of foreign regulatory requirements. We intend to explore and seek to comply with these requirements on a country-by-country basis as the deployment of Internet-capable fax nodes continues. There can be no assurance that we will be able to satisfy the regulatory requirements in each of the countries currently targeted for node deployment, and the failure to satisfy such requirements may prevent us from installing Internet-capable fax nodes in such countries. The failure to deploy a number of such nodes could have a material adverse effect on our business, operating results and financial condition.

Our fax nodes and our faxLauncher service utilize encryption technology in connection with the routing of customer documents through the Internet. The export of such encryption technology is regulated by the United States government. We have authority for the export of such encryption technology other than to Cuba, Iran, Iraq, Libya, North Korea, and Rwanda. Nevertheless, there can be no assurance that such authority will not be revoked or modified at any time for any particular jurisdiction or in general. In addition, there can be no assurance that such export controls, either in their current form or as may be subsequently enacted, will not limit our ability to distribute our services outside of the United States or electronically. While we take precautions against unlawful exportation of our software, the global nature of the Internet makes it virtually impossible to effectively control the distribution of our services. Moreover, future Federal or state legislation or regulation may further limit levels of encryption or authentication technology. Any such export restrictions, the unlawful exportation of our services, or new legislation or regulation could have a material adverse effect on our business, financial condition and results of operations.

The legal structure and scope of operations of our subsidiaries in some foreign countries may be subject to restrictions which could result in severe limits to our ability to conduct business in these countries. To the extent that we develop or offer messaging services in foreign countries, we will be subject to the laws and regulations of these countries. The laws and regulations relating to the Internet in many countries are evolving and in many cases are unclear as to their application. For example, in India, the PRC and other countries we may be subject to licensing requirements with respect to the activities in which we propose to engage and we may also be subject to foreign ownership limitations or other approval requirements that preclude our ownership interests or limit our ownership interests to up to 49% of the entities through which we propose to conduct any regulated activities. If these limitations apply to our activities, including our activities conducted through our subsidiaries, our opportunities to generate revenue will be reduced, our ability to compete successfully in these markets will be adversely affected, our ability to raise capital in the private and public markets may be adversely affected and the value of our investments and acquisitions in these markets may decline. Moreover, to the extent we are limited in our ability to engage in certain activities or are required to contract for these services from a licensed or authorized third party, our costs of providing our services will increase and our ability to generate profits may be adversely affected.

Our intellectual property rights are critical to our success, but may be difficult to protect.

We regard our copyrights, service marks, trademarks, trade secrets, domain names and similar intellectual property as critical to our success. We rely on trademark and copyright law, trade secret protection and confidentiality and/or license agreements with our employees, customers, strategic partners and others to protect our proprietary rights. Despite our precautions, unauthorized third parties may improperly obtain and use information that we regard as proprietary. Third parties may submit false registration data attempting to transfer key domain names to their control. Our failure to pay annual registration fees for domain names may result in the loss of these domains to third parties. Third parties have challenged our rights to use some of our domain names, and we expect that they will continue to do so, which may affect the value that we can derive from the planned disposition of the domain names included among our non-core assets.

The status of United States patent protection for software products is not well defined and will evolve as additional patents are granted. If we apply for a patent in the future, we do not know if our application will be issued with the scope of the claims we seek, if at all. The laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. Our means of protecting our proprietary rights in the United States or abroad may not be adequate and competitors may independently develop similar technology.

Third parties may infringe or misappropriate our copyrights, trademarks and similar proprietary rights. In addition, other parties have asserted and may in the future assert infringement claims against us. We cannot be certain that our services do not infringe issued patents. Because patent applications in the United States are not publicly disclosed until the patent is issued, applications may have been filed which relate to our services.

We have been and may continue to be subject to legal proceedings and claims from time to time in the ordinary course of our business, including claims related to the use of our domain names and claims of alleged infringement of the trademarks and other intellectual property rights of third parties. Third parties have challenged our rights to register and use some of our domain names based on trademark principles and on the Anticybersquatting Consumer Protection Act. If domain names become more valuable to businesses and other persons, we expect that third parties will continue to challenge some of our domain names and that the number of these challenges may increase. In addition, the existing or future laws of some countries, in particular countries in Europe, may limit or prohibit the use in those countries or elsewhere of some of our geographic names that contain the names of a city in those countries or the name of those countries. Intellectual property litigation is expensive and time-consuming and could divert management's attention away from running our business. These claims and the potential for such claims may reduce the value that we can expect to receive from the disposition of our domain names.

In connection with the sale of our consumer-based email and advertising network business, we transferred to the buyer the rights to direct the "MX" record, or the right to direct email messages addressed to domain names owned by us and used in this business. Although we do not operate the service or have any role in the delivery of messages sent by users of the service, our position as the registrant of the domain names used as addresses for email accounts maintained by such service may subject us to claims from time to time. We could face liability for defamation, copyright, patent or trademark infringement, harassment, unsolicited commercial e-mail and other claims based on the content of the messages transmitted over the service of this business. These claims, even if without merit, can cause us to incur legal expenses and may divert management time and resources.

A substantial amount of our common stock may come onto the market in the future, which could depress our stock price.

Sales of a substantial number of shares of our common stock in the public market could cause the market price of our Class A common stock to decline. As of May 1, 2003, we had an aggregate of 42,938,720 shares of Class A and Class B common stock outstanding. As of May 1, 2003 we had options to purchase approximately 2.7 million shares of Class A common stock outstanding. As of May 1, 2003, we had warrants to purchase 1,843,942 shares of Class A common stock outstanding. As of May 1, 2003, we had approximately 811,927 shares of Class A common stock issuable upon conversion of outstanding convertible notes and an indeterminate number of additional shares of Class A common stock issuable over five years in payment of interest on $861,886 in principal amount of such notes.

As of May 1, 2003, over 36 million shares of Class A common stock and Class B common stock were freely tradable, in some cases subject to the volume and manner of sale limitations contained in Rule 144. Approximately 4.9 million shares will become freely tradable after October 31, 2003 and approximately 1.1 million shares of Class A common stock will become available for sale at various dates upon the expiration of one-year holding periods or upon the expiration of any other applicable restrictions on resale. We may issue large amounts of additional Class A common stock, which may also be sold and which could adversely affect the price of our stock. Approximately 22.3 million of our outstanding shares were issued in connection with the elimination of debt on May 1, 2003. If the holders of these shares sell large numbers of shares, these holders could cause the price of our Class A common stock to fall.

As of May 1, 2003, the holders of approximately 8.2 million shares of outstanding Class A common stock, the holders of 1.8 million shares of Class A common stock issuable upon exercise of our outstanding warrants and the holders of approximately 86,189 shares of Class A common stock issuable upon conversion of our outstanding senior convertible notes had the right, subject to various conditions, to require us to file registration statements covering their shares, or to include their shares in registration statements that we may file for ourselves or for other stockholders. By exercising their registration rights and selling a large number of shares, these holders could cause the price of the Class A common stock to fall. An undetermined number of these shares have been sold publicly pursuant to Rule 144.

Our Class A common stock may be subject to delisting from the Nasdaq National Market.

Our Class A common stock faces potential delisting from the Nasdaq National Market which could hurt the liquidity of our Class A common stock. We may be unable to comply with the standards for continued listing on the Nasdaq National Market. These standards require, among other things, that our Class A common stock have a minimum bid price of $1. Specifically, an issuer will be considered non-compliant with the minimum bid price requirement only if it fails to satisfy the applicable requirement for any 30 consecutive trading day period. It would then be afforded a 90 calendar day grace period in which to regain compliance. In addition, the listing standards require that we maintain compliance with various other standards, including market capitalization or total assets and total revenue, number of publicly held shares, which are shares held by persons who are not officers, directors or beneficial owners of 10% of our outstanding shares, and market value of publicly held shares. Alternatively, we can comply with certain other standards, including a $10 million minimum stockholders' equity requirement. The minimum bid price of our stock was below $1 during various periods in the fourth quarter of 2000 and the first quarter of 2001 and was below $1 during the period from March 14, 2001 through January 22, 2002.

On January 23, 2002, we effected a ten-for-one reverse stock split. Although our stock price exceeded the $1 minimum bid price requirement for a period of time since our reverse stock split, our stock price was also below $1.00 during the period from July 10, 2002 through July 26, 2002 and from July 30, 2002 through August 16, 2002 and from November 18, 2002 until the present. On December 24, 2002 Nasdaq granted us 90 calendar days, or until March 24, 2003, to regain compliance. On March 11, 2003, the SEC declared effective Nasdaq's rule filing which extends the 90 day period to 180 days. Accordingly, the Company now has until June 23, 2003 to regain compliance. In order to regain compliance, the bid price for the Company's Class A common stock must close at or above $1 per share for 10 consecutive trading days. If we are unable to regain compliance, we may be subject to delisting.

We had a total stockholders' deficit in the amount of $61.8 million as of December 31, 2002 and $57.4 million as of March 31, 2003. As a result, we are currently not in compliance with the $10 million minimum total stockholders' equity requirement. An alternative listing standard to the minimum total stockholders equity standard requires that we maintain a minimum market value of our publicly held shares of not less than $15 million.

We are also required to maintain at least 3 independent directors on our board to satisfy the Nasdaq's audit committee requirements.

Due to the failure to maintain the required minimum of three independent directors on its board and audit committee and its failure to maintain compliance with the $10 million minimum total stockholders equity requirement, the Staff of Nasdaq made an initial delisting determination. EasyLink appealed to Nasdaq's Listing Qualifications Panel and a hearing was scheduled for May 15, 2003 to consider EasyLink's request for continued listing on the Nasdaq National Market. On May 14, 2003, Nasdaq's Hearings Department determined to postpone the May 15, 2003 hearing. The postponement was granted based on the determination by the Nasdaq staff that EasyLink is currently in compliance with Nasdaq's listing requirements except for the $1 minimum bid price requirement. EasyLink has until June 23, 2003 to regain compliance with this requirement. If EasyLink fails to regain compliance with the minimum bid price requirement or fails to maintain compliance with the other listing requirements, the hearing to consider EasyLink's continued listing will be reinstated within 25-45 days after June 23, 2003 or the date of Nasdaq's determination that EasyLink has failed to comply with any other compliance requirement.

The Nasdaq staff determined that EasyLink had regained compliance with Nasdaq's independent director requirements as a result of EasyLink's recent appointment of three additional independent directors to its board of directors and two additional independent directors to its audit committee. The Nasdaq staff also determined that EasyLink was in compliance with the $15 million minimum market value of publicly held shares requirement, an alternative listing standard to minimum stockholders equity, based on the current number of publicly held shares resulting primarily from EasyLink's recent debt reduction and financing. As determined by Nasdaq, the number of publicly held shares, which excludes shares held by directors, officers and 10% shareholders, is approximately 31.2 million shares as of May 1, 2003.

There can be no assurance that EasyLink will regain compliance with the minimum bid price requirement by June 23, 2003 or that it will maintain compliance with the other listing standards, including the $15 million minimum market value of publicly held shares requirement. If the hearing to consider EasyLink's continued listing is reinstated, there can be no assurance the Listing Qualifications Panel will grant the Company's request for continued listing.

If our common stock were to be delisted from trading on the Nasdaq National Market and were neither re-listed thereon nor listed for trading on the Nasdaq Small Cap Market or other recognized securities exchange, trading, if any, in the Class A common stock may continue to be conducted on the OTC Bulletin Board or in the non-Nasdaq over-the-counter market. Delisting would result in limited release of the market price of the Class A common stock and limited news coverage of EasyLink and could restrict investors' interest in our Class A common stock and materially adversely affect the trading market and prices for our Class A common stock and our ability to issue additional securities or to secure additional financing.

Our stock price has been volatile and we expect that it will continue to be volatile.

Our stock price has been volatile since our initial public offering and we expect that it will continue to be volatile. As discussed above, our financial results are difficult to predict and could fluctuate significantly. In addition, the market prices of securities of electronic services companies have been highly volatile. A stock's price is often influenced by rapidly changing perceptions about the future of electronic services or the results of other

Internet or technology companies, rather than specific developments relating to the issuer of that particular stock. As a result of volatility in our stock price, a securities class action may be brought against us. Class-action litigation could result in substantial costs and divert our management's attention and resources.

We may have continuing obligations in connection with the sale of our advertising network business.

On March 30, 2001, we completed the sale of our advertising network business to Net2Phone, Inc. Included in the sale was our rights to provide e-mail-based advertising and permission marketing solutions to advertisers, as well as our rights to provide e-mail services directly to consumers at the www.mail.com Web site and in partnership with other Web sites. Net2Phone has subsequently transferred this business to a third party.

Notwithstanding the sale of this business and the assignment to Net2Phone of our Web site contracts with third parties, we may nonetheless remain liable for obligations under some of such third party Web site contracts. Accordingly, we may have liability if there is a breach on the part of the third party to which we have migrated the hosting of consumer e-mail boxes or on the part of Net2Phone or its assignee under the third party Web site agreements that were assigned to them.

ITEM 4 CONTROLS AND PROCEDURES

In the 90 days prior to the filing date of this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of EasyLink's "disclosure controls and procedures," as that term is defined in Rule 13a-14(c) promulgated under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by EasyLink in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and to ensure that such information is made known to the Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure. There have been no significant changes in EasyLink's internal controls or in other factors that could significantly affect these controls subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation. There were no significant deficiencies or material weaknesses, and therefore no corrective action with regard thereto.

PART II OTHER INFORMATION

Item 1: Legal Proceedings

As previously announced, in response to the announcement by PTEK Holdings that it had entered into an agreement to purchase a promissory note in the principal amount of $10 million and shares of Class A common stock of EasyLink held by AT&T Corp., EasyLink commenced an action on March 17, 2003 against AT&T Corp., PTEK Holdings, Inc. and PTEK's subsidiary Xpedite Systems, Inc. seeking, among other relief, to enjoin AT&T from selling the EasyLink promissory note held by AT&T to PTEK and to compel AT&T to participate in EasyLink's debt restructuring. The Court ordered limited document discovery and established a timetable for considering EasyLink's motion, including an oral argument hearing on May 1, 2003. The hearing has been rescheduled for May 22, 2003. AT&T Corp. and PTEK have filed a motion to dismiss EasyLink's complaint or, alternatively, to transfer the action to the Law Division. No assurance can be given as to the outcome of this matter.

Item 2: Changes in Securities and Use of Proceeds

Recent Sales of Unregistered Securities

During the three months ended March 31, 2003, we issued shares of Class A common stock as follows:

The Company issued 210,479 shares of Class A common stock valued at approximately $119,732 as payment for interest in lieu of cash in reliance on the private placement exemption contained in Section 4(2) of the Securities Act.

The Company issued an aggregate of 154,184 shares of Class A common stock pursuant to its 401(k) plan on January 15, 2003, February 15, 2003 and March 15, 2003.

The Company issued 1,070,183 shares of Class A common stock in exchange for the cancellation of debt in reliance on the exemption contained in Section 3(a)(9) of the Securities Act.

Item 6 Exhibits and Reports on Form 8-K

The following exhibits are filed as part of this report:

Exhibit 3(ii) Amended and Restated ByLaws.

Exhibit 10.1 Form of Indemnification Agreement for Directors and Officers.

Exhibit 10.2 Debt Exchange Agreement between George Abi Zeid and the Company.

Exhibit 10.3 Letter Agreement relating to payment of accrued interest between George Abi Zeid and the Company and the promissory note referenced therein.

Exhibit 99.1 Certificate of Chief Executive Officer pursuant to section 1350 of chapter 63 of title 18 of the United States Code

Exhibit 99.2 Certificate of Chief Financial Officer pursuant to section 1350 of chapter 63 of title 18 of the United States Code

Reports on Form 8-K - EasyLink Services Corporation filed the following reports on Form 8-K during the three months ended March 31, 2003:

On January 28, 2003, the Company filed a Form 8K disclosing the status of its proposed debt restructuring.

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On March 6, 2003, the Company filed a Form 8-K disclosing the announcement by PTEK Holdings regarding its agreement to acquire from AT&T Corp. a promissory note and shares of Class A common stock issued by EasyLink and the status of certain litigation.

On March 19, 2003, the Company filed a Form 8K disclosing the commencement of a lawsuit against AT&T Corp., PTEK Holdings and Xpedite.

ITEM 7

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-Q to be signed on its behalf by the undersigned thereto duly authorized.

EasyLink Services Corporation

/s/ DEBRA L. MCCLISTER

Executive Vice President and
Chief Financial Officer

May 15, 2003

CERTIFICATION

I, Thomas Murawski, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of EasyLink Services Corporation ("Easylink");

(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 in order 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 this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of EasyLink as of, and for, the periods presented in this quarterly report;

(4) EasyLink's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for EasyLink and we have:

(a) designed such controls and procedures to ensure that material information relating to EasyLink, 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 of EasyLink's controls and procedures as of a date within 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 controls and procedures based on our evaluation as of the Evaluation Date;

(5) EasyLink's other certifying officer and I have disclosed, based on our most recent evaluation, to EasyLink's auditors and the audit committee of EasyLink's Board of Directors (or persons fulfilling the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect EasyLink's ability to record, process, summarize and report financial data and have identified for EasyLink'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 EasyLink's internal controls; and

(6) EasyLink's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ THOMAS MURAWSKI

Thomas Murawski
Chief Executive Officer and President

CERTIFICATION

I, Debra McClister, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of EasyLink Services Corporation ("Easylink");

(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 in order 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 this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of EasyLink as of, and for, the periods presented in this quarterly report;

(4) EasyLink's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for EasyLink and we have:

(a) designed such controls and procedures to ensure that material information relating to EasyLink, 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 of EasyLink's controls and procedures as of a date within 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 controls and procedures based on our evaluation as of the Evaluation Date;

(5) EasyLink's other certifying officer and I have disclosed, based on our most recent evaluation, to EasyLink's auditors and the audit committee of EasyLink's Board of Directors (or persons fulfilling the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect EasyLink's ability to record, process, summarize and report financial data and have identified for EasyLink'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 EasyLink's internal controls; and

(6) EasyLink's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ DEBRA McCLISTER

Debra McClister
Executive Vice President and Chief
Financial Officer