EASYLINK SERVICES CORP
Form 10-Q
December 19, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

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

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 November 30, 2005: Class A common stock $0.01 par value 45,187,539 shares.

EASYLINK SERVICES CORPORATION
SEPTEMBER 30, 2005
FORM 10-Q
INDEX

EasyLink Services Corporation
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	Sept 30, 2005	Dec 20

	(unaudited)	(rest
ASSETS		
Current assets:		
Cash and cash equivalents	$8,383	$12
Marketable securities	--	2
Accounts receivable, net of allowance for doubtful accounts of $2,854 and $3,950 as of September 30, 2005 and December 31, 2004, respectively	11,521	11
Prepaid expenses and other current assets	3,356	2
Total current assets	23,260	28
Property and equipment, net	10,240	8
Goodwill, net	6,016	6
Other intangible assets, net	6,833	8
Other assets	905	
Total assets	$47,254	$52
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$7,660	$7
Accrued expenses	12,258	14
Current portion of loans and notes payable	3,350	3
Other current liabilities	1,640	2
Net liabilities of discontinued operations	928	
Total current liabilities	25,836	28
Loans and notes payable, less current portion	7,800	9
Other long term liabilities	1,873	1
Total liabilities	35,509	39
Stockholders' equity:		
Common stock:		
Class A--500,000,000 shares authorized at September 30, 2005 and December 31, 2004, 45,096,164 and 44,174,459 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	453	
Additional paid-in capital	554,235	553
Accumulated other comprehensive loss	(658)	
Accumulated deficit	(542,285)	(540
Total stockholders' equity	11,745	12
Total liabilities and stockholders' equity	$47,254	$52

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 Ended September	
	2005	2
		(re
Revenues	$19,701	$22
Cost of revenues	8,169	8
Gross profit	11,532	13
Operating expenses:		
Sales and marketing	4,732	4
General and administrative	5,206	5
Product development	1,696	1
Amortization of intangible assets	517	
Loss on sale of fax businesses	250	
Restructuring charges	--	
Gain on sale of MailWatch service line	--	(4
	12,401	8
Income (loss) from operations	(869)	5
Other income (expense), net:		
Interest income	30	
Interest expense	(336)	
Gain on domain names repurchase agreement	1,907	
Other, net	(453)	
Total other income (expense), net	1,148	
Income before income taxes	279	5
Provision (credit) for income taxes	(65)	1
Net income	$ 344	$4
Basic net income per share	$0.01	$
Diluted net income per share	$0.01	
Weighted-average basic shares outstanding	44,873,790	44,163
Weighted-average diluted shares outstanding	45,036,439	44,670

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)

	Nine Months Ende September 30,	
	2005	20
		(res
Revenues	$60,149	$70
Cost of revenues	22,925	28
Gross profit	37,224	42
Operating expenses:		
Sales and marketing	14,726	13
General and administrative	15,390	18
Product development	5,094	5
Separation agreement costs	2,312	
Amortization of intangible assets	1,551	1
Loss on sale of fax businesses	250	
Restructuring charges	--	
Gain on sale of MailWatch service line	--	(4
	39,323	33
Income (loss) from operations	(2,099)	9
Other income (expense), net:		
Interest income	83	
Interest expense	(994)	
Gain on domain names repurchase agreement	1,907	
Other, net	(489)	
Total other income (expense), net	507	

Income (loss) before income taxes..	(1,592)	8
Provision for income taxes..	40	1
Net income (loss)...	$(1,632)	$6
Basic net income (loss) per share...	$(0.04)	$
Diluted net income (loss) per share.......................................	$(0.04)	$
Weighted-average basic shares outstanding.................................	44,529,162	44,030
Weighted-average diluted shares outstanding...............................	44,529,162	44,915

See accompanying notes to unaudited condensed consolidated financial statements.

EasyLink Services Corporation
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended September 30,	
	2005	20
		(rest
Cash flows from operating activities:		
Net income (loss)	$ (1,632)	$6,9
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	2,426	4,0
Amortization	1,762	2,0
Loss on sale of marketable securities	469	
Provision for doubtful accounts	57	4
Loss on sale of fax businesses	250	
Provision for restructuring	--	(3
Gain on sale of MailWatch service line	--	(4,1
Issuance of shares as matching contributions to employee benefit plans	374	2
Gain on sale of domain name repurchase agreement	(1,907)	

Other	55	2
Changes in operating assets and liabilities:		
Accounts receivable, net	305	1,1
Prepaid expenses and other current assets	201	(6
Accounts payable, accrued expenses and other liabilities	(1,902)	(3,7
Net cash provided by operating activities	458	6,1
Cash flows from investing activities:		
Purchases of property and equipment, including capitalized software	(3,798)	(1,9
Proceeds from sale of marketable securities	1,021	
Proceeds from domain name repurchase agreement	830	
Proceeds from sale of MailWatch service line	--	3,5
Cash paid for Quickstream acquisition	(342)	
Net cash (used in) provided by investing activities	(2,289)	1,5
Cash flows from financing activities:		
Proceeds of bank loan advances	1,900	
Payments of bank loan advances	(950)	
Payments under capital lease obligations	(324)	(2
Proceeds from issuance of stock	96	
Principal payments of notes payable	(3,225)	(1,8
Payments of capitalized interest	--	(7
Net cash used in financing activities	(2,503)	(2,8
Effect of foreign exchange rate changes on cash and cash equivalents	101	(1
Cash provided by (used in) discontinued operations	400	(3
Net increase (decrease) in cash and cash equivalents	(3,833)	4,4
Cash and cash equivalents at beginning of the period	12,216	6,6
Cash and cash equivalents at the end of the period	$8,383	$11,

Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 290	$ 3
Net cash paid for taxes	$ 134	$
Purchase of property, plant and equipment through capital lease obligations	$ 91	$ 4
Supplemental disclosure of non-cash information:		

During the nine months ended September 30, 2005, the Company entered into an agreement to terminate its option to purchase back the internet domain names it sold to its former Chairman in December 2004 and to terminate its right to receive a share of the revenues from the domain names for four years under the original agreement. The total consideration amounted to $2 million consisting of $700,000 in cash, a $1,130,000 non-interest bearing note and cancellation of $170,000 in severance payments due to the former Chairman. The transaction resulted in a gain of $1,907,000 after recording the note payable at its estimated fair value.

During the nine months ended September 30, 2005, the Company issued 419,304 shares of Class A common stock valued at approximately $352,000 as part of the consideration for the acquisition of Quickstream Software, Inc.

During the nine months ended September 30, 2004, the Company issued shares of Class A common stock as follows:

> The Company issued 28,022 shares of Class A common stock valued at approximately $37,000 as payment for interest in lieu of cash.
>
> The Company issued 99,500 shares of Class A common stock valued at approximately $149,000 to a former employee of the Company pursuant to the settlement of a commitment to the employee to issue such shares originally entered into in 2001.

See accompanying notes to unaudited condensed consolidated financial statements.

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 Management Services consisting of integrated desktop messaging services and document capture and management services such as fax to database, fax to data and data conversion services; Transaction Delivery Services consisting of electronic data interchange or "EDI," and production messaging services utilizing email, fax and telex: and, through July 31, 2004, services that protect corporate e-mail systems such as virus protection, spam control and content filtering services (the Mailwatch service line).

The Company operates in a single industry segment, business communication services. Although the Company provides various major service offerings, many customers employ multiple services using the same access and network facilities. Similarly, network operations and customer support services are provided across various services. Accordingly, allocation of expenses and reporting of operating results by individual services would be impractical and arbitrary. Services are provided in the United States and certain other regions in the world (predominantly in the United Kingdom).

(b) Unaudited Interim Condensed Consolidated Financial Information

The accompanying interim condensed consolidated financial statements as of September 30, 2005 and for the three and nine month periods ended September 30, 2005 and 2004 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 September 30, 2005 and the consolidated results of operations for the three and nine month periods ended September 30, 2005 and 2004 and the consolidated cash flows for the nine months ended September 30, 2005 and 2004. 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, 2004 has been derived from audited consolidated financial statements, as restated, at that date.

For each of the years ended December 31, 2004 and 2003, the Company received a report from its former registered public accountants containing an explanatory paragraph stating that the Company has a working capital deficiency and an accumulated deficit 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 and ultimately to achieve continued profitable operations.

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, 2004 as included in the Company's Form 10-K/A filed with the Securities and Exchange Commission on December 8, 2005.

(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 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 September 30, 2005 and December 31, 2004 as a result of the sale and discontinuance of the operations of this business in 2001.

(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) Marketable Securities

All of the Company's marketable securities are classified as available-for-sale securities. Accordingly, net unrealized gains as of December 31, 2004 are reflected as a separate component of stockholders' equity. As of September 30, 2005 the Company had sold all marketable securities resulting in a realized loss of $469,000 which is included in other income (expense) in the statement of operations for the three and nine month periods ended September 30, 2005.

(f) Revenue Recognition

The Company's services include Transaction Management Services consisting of integrated desktop messaging services and document capture and management services such as fax to database, fax to data and data conversion services; Transaction Delivery Services consisting of electronic data interchange or "EDI," and production messaging services utilizing email, fax and telex; and, through July 31, 2004, services that protect corporate e-mail systems such as virus protection, spam control and content filtering services (the Mailwatch service line). The Company derives revenues from monthly fees and usage-based charges for its transaction delivery and management services; and from license fees. Revenue from services is recognized as the services are performed. Facsimile license revenue is recognized over the average estimated customer life of 3 years.

(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, accounts receivable, notes payable and convertible notes payable. At September 30, 2005 and December 31, 2004, the fair value of cash, cash equivalents 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 $1.4 million at December 31, 2004. However, as these notes were paid on their maturity date of February 1, 2005, management estimated that their fair value approximated their carrying value at December 31, 2004.

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 total revenues for the three and nine month periods ended September 30, 2005 and 2004 and no accounts receivable from a single customer exceeded 10% of total accounts receivable as of September 30, 2005 and December 31, 2004. Revenues from the Company's five largest customers accounted for an aggregate of 13% and 12% of the Company's total revenues for the three months ended September 30, 2005 and 2004, respectively, and 11% and 12% of the Company's total revenues for the nine months ended September 30, 2005 and 2004, 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 per share for the three months ended September 30, 2005 includes the effect of employee stock options to purchase 535,000 shares. Options to purchase an additional 4.5 million shares are excluded from the calculation for the three months ended September 30, 2005 as they are anti-dilutive for the period. Diluted net loss for the nine months ended September 30, 2005 excludes all common stock equivalents as they are anti-dilutive for that period. Diluted net income per share for the three and nine month periods ended September 30, 2004 include the effect of employee stock options to purchase 1.6 million shares of common stock.

(i) Stock-Based Compensation Plans

As allowed by SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, we have 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. We 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 we had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

($ in thousands, except per share amounts)	For the three months ended Sept 30,		For the nine m ended Sept	
	2005	2004 (restated)	2005	20 (rest
Net income (loss):				
Net income (loss), as reported........................	$ 344	$4,216	$(1,632)	$6
Deduct: total stock based employee compensation determined under the fair value method for all awards, net of tax...................................	(197)	(367)	(508)	(2
Pro forma net income (loss)..........................	$ 147	$3,849	$(2,140)	$4
Basic net income (loss) per share:				
Net income (loss) per share, as reported..............	$ 0.01	$0.10	$(0.04)	$
Deduct: total stock based employee compensation determined under the fair value method for all awards, net of tax...................................	(0.01)	(0.01)	(0.01)	(
Pro forma net income (loss) per share.................	$0.00	$0.09	($0.05)	$

Diluted net income (loss) per share:				
Net income (loss) per share, as reported..............	$0.01	$0.09	$ (0.04)	$
Deduct: total stock based employee compensation determined under the fair value method for all awards, net of tax...................................	(0.01)	(0.00)	(0.01)	(
Pro forma net income (loss) per share.................	$0.00	$0.09	($0.05)	$

The resulting effect on the pro forma net income (loss) disclosed for the three and nine month periods ended September 30, 2005 and 2004 is not likely to be representative of the effects on 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) Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)) which replaces SFAS 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees. Among other items, SFAS 123(R) eliminates the use of APB 25 and the intrinsic method of accounting, and requires all share-based payments, including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS 123(R) is effective for public companies beginning with the first annual period that begins after June 15, 2005. Accordingly, the Company will adopt SFAS 123(R) in 2006 and in accordance with its provisions will recognize compensation expense for all share-based payments and employee stock options based on the grant-date fair value of those awards. The Company currently provides the pro forma disclosures required by SFAS No. 148, "Accounting for Stock- Based Compensation -Transition and Disclosure," on a quarterly basis (See Note i - "Stock-Based Compensation").

In December 2004, the FASB issued FASB Staff Position, 109-1 ("FSP FAS 109-1"), "Application of FASB Statement No. 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004". In FSP FAS 109-1, the FASB concluded that the tax relief (special tax deduction for domestic manufacturing) from this legislation should be accounted for as a "special deduction" instead of a tax rate reduction. The guidance in FSP FAS 109-1 was effective December 21, 2004 and had no impact on the Company's results of operations or its financial position.

In December 2004, the FASB issued FSP FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004". The American Jobs Creation Act of 2004 introduces a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. FSP FAS 109-2 gives a company additional time to evaluate the effects of the legislation on any plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109, Accounting for Income Taxes. The deduction is subject to a number of limitations, and uncertainty remains as to how to interpret numerous provisions in the Act. As such, the Company is not in a position to decide on whether, and to what extent, it might repatriate foreign earnings that have not yet been remitted to the U.S. based on its analysis to date. The Company expects to be in a position to finalize its assessment by December 31, 2005.

(k) Certain amounts in the balance sheet as of December 31, 2004 have been reclassified to conform to the presentation as of September 30, 2005. Amounts at December 31, 2004 representing balances due to former customers and amounts due to foreign government telecommunications authorities and telex carriers, which were previously classified with accounts receivable, have been reclassified to accounts payable or accrued expenses.

(2) RESTATEMENT OF 2004 FINANCIAL STATEMENTS

The Company restated its previously issued financial statements for the year ended December 31, 2004, for each quarter in 2004, and for the quarter ended March 31, 2005. The Company's determination to restate these previously issued financial statements and the impact of the restatement on the statement of operations for the three and nine month periods ended September 30, 2004 included the following items:

1. The liability for telecommunications services costs of the Company's United Kingdom subsidiary was overstated. The Company revised its methodology to more accurately estimate its liability resulting in an increase in cost of service of $152,000 for the three months ended September 30, 2004 and a decrease in cost of service of $460,000 for the nine months ended September 30, 2004.

2. The Company has determined that it did not properly account for certain equipment purchased in prior years. As a result, the Company recorded $7,000 and $43,000 in additional depreciation expense in the three and nine month periods ended September 30, 2004 respectively.

3. The Company incorrectly calculated the net operating loss carry forwards of its United Kingdom subsidiaries as of December 31, 2003 resulting in the under-accrual of foreign income taxes of $115,000 and $130,000 for the three and nine month periods ended September 30, 2004, respectively.

4. The restatement also includes the recording of adjustments in prior periods that were not recorded in these periods because, in each case and in the aggregate, the amount of these errors was not material to the Company's consolidated financial statements

The following schedules show the impact of the restatement on the relevant captions from the Company's condensed consolidated financial statements;

	Three months ended September 30, 2004 As Previously Reported	As Restated	Nine months en September 30, As Previousl Reported
Revenues	$ 22,509	$ 22,509	$ 70,899
Cost of revenues	8,428	8,580	28,518
Gross profit	14,081	13,929	42,381
Operating expenses			
General and admin	5,959	5,967	18,024
Other expenses	2,065	2,065	15,734
	8,024	8,032	33,758
Income from operations	6,057	5,897	8,623
Other income(expense), net	(16)	(16)	(234)
Income before income taxes	6,041	5,881	8,389
Provision for income taxes	1,550	1,665	1,750
Net income	$ 4,491	$ 4,216	$ 6,639
Basic net income per share	$ 0.10	$ 0.10	$ 0.15
Diluted net income per share	$ 0.10	$ 0.09	$ 0.15

(3) ACQUISITION OF QUICKSTREAM SOFTWARE

On August 1, 2005 the company completed the acquisition of Quickstream Software, Inc., a software technology company, for a total purchase price of $699,000 which was comprised of approximately $342,000 in cash and 425,000 shares of the Company's Class A common stock valued at approximately $357,000. The purchase of Quickstream provided the Company with certain proprietary software that has been integrated into the Company's network to add new features for certain of the Company's services.

The results for Quickstream have been included in the condensed consolidated financial statements from the date of acquisition. As of September 30, 2005, the total purchase price has been recorded as capitalized software in the condensed consolidated balance sheet as of that date based on the Company's preliminary allocation of the purchase price. The Company intends to allocate the purchase price over the acquired assets and assumed liabilities with assistance from an independent appraiser as of December 31, 2005.

(4) SALE OF FAX BUSINESSES IN SINGAPORE AND MALAYSIA

In September 2005, the Company entered into two separate agreements for the sale of its fax businesses, including the customer bases and customer premise equipment, in Singapore and Malaysia. Consideration for the sales is based on future revenues and, net of future costs, for the Malaysia transaction. Because of the contingent nature of the proceeds, the Company will record these amounts, if any, as received. The Company has recorded a loss on the sales of $250,000 representing the net book value of the businesses at dates of sales.

(5) SALE OF MAILWATCH SERVICE LINE

On July 31, 2004, the Company sold its MailWatch service line to Infocrossing, Inc. for a total of approximately $5.0 million, including $3.5 million in cash and 123,193 shares of Infocrossing's common stock valued at approximately $1.5 million. The sale resulted in a gain of $4.1 million before income taxes. The Infocrossing stock was sold by the Company in September 2005 resulting in a loss of $469,000 that is reported in the other income (expense) category in the statement of operations for the three and nine month periods ended September 30, 2005. At December 31, 2004 the unrealized gain related to the Infocrossing stock of $520,000 was included in the accumulated other comprehensive loss account in stockholders' equity.

(6) GAIN ON DOMAIN NAMES REPURCHASE AGREEMENT

In August 2005, the Company entered into an agreement to terminate its option to purchase back the internet domain names it sold to its former Chairman in December 2004 and to terminate its right to receive a share of the revenues from the domain names for four years under the original agreement. The total consideration amounted to $2 million consisting of $700,000 in cash, a $1,130,000 non-interest bearing note and cancellation of $170,000 in severance payments due to the former Chairman. The transaction resulted in a gain of $1,907,000 after recording the note payable at its estimated fair value.

(7) CARRIER SETTLEMENT AGREEMENT

In November 2005, the Company entered into a Settlement Agreement with MCI WorldCom ("MCI") (the "MCI Settlement") related to certain accounts receivable and accounts payable balances with MCI that were outstanding prior to MCI's bankruptcy filing in 2002. The agreement also included a settlement of claims made by the Company that MCI had charged, and the Company had paid, for telecommunications services from MCI in excess of the contracted rates prior to the bankruptcy filing. As a result of the settlement, the Company recorded a $110,000 reduction of its bad debt expense representing the recovery of the accounts receivable balance from MCI and recorded a reduction in its cost of service for $540,000 representing the recovery of charges stemming from its claim of excess telecommunication charges by MCI in the quarter ended June 30, 2005.

(8) LOANS AND NOTES PAYABLE

Loans and notes payable include the following, in thousands:

	Sept 30, 2005	Dec 31, 2004
Term loan payable	$10,200	$12,000

Advances	950	---
7% Convertible Subordinated Notes due February 1, 2005	---	1,425
Total loans and notes payable	11,150	13,425
Less current portion	3,350	3,825
Non current portion	$7,800	$9,600

The Term loan payable is part of a $15 million credit facility entered into by the Company with Wells Fargo Foothill, Inc. (a subsidiary of Wells Fargo Bank). The Term loan is payable monthly over 60 months with interest payable monthly at the rate of 3.75% over the Wells Fargo prime rate, which was 6.25% as of September 30, 2005 resulting in a 10% interest rate for the Company. As part of the credit facility the Company can also draw down working capital advances up to $7.5 million based on certain circumstances and within certain specified limitations. The advances bear interest at the rate of 0.75% over the Wells Fargo Bank prime rate. As of September 30, 2005, the Company had $950,000 of advances outstanding.

The credit facility includes certain affirmative and restrictive covenants, including restrictions on capital expenditures and maintenance of quarterly levels of EBITDA. On March 31, 2005, the Company entered into an amendment of the credit agreement whereby it can exclude severance charges related to the Separation agreement with Mr. George Abi Zeid of up to $2.5 million from the calculation of EBITDA for covenant compliance purposes. The Company was in compliance with the capital expenditures and EBITDA covenants through September 30, 2005 but currently expects that it will not be in compliance with the EBITDA covenant, as revised, as of December 31, 2005.

-14-

(9) SEPARATION AGREEMENT

In January 2005, the Company entered into a Separation Agreement with George Abi Zeid, its former President of the International division, wherein Mr. Abi Zeid resigned as an officer and director of the Company. Under the agreement, the Company agreed to pay Mr. Abi Zeid $240,000 as a severance payment on the effective date of his resignation and $1,960,000 in equal installments over three years in consideration of the non-compete and other covenants contained in the agreement. In connection with the agreement, the Company also agreed to pay $200,000 of severance payments to two other former employees of the Company. As of September 30, 2005 $565,000 related to the agreement is included in accrued expenses and $838,000 is included in other long term liabilities.

(10) INCOME TAXES

The Company recorded a provision (credit) for Federal, state and Foreign income taxes in the three and nine month periods ended September 30, 2005 and 2004 based on anticipated effective tax rates for the respective full year. The effective rate varies from standard tax rates primarily due to the utilization of available net operating loss carry forwards for Federal and certain state income tax purposes.

The availability of the Company's existing net operating loss carryforwards to offset income in the current periods and in the future has been determined to be significantly limited. As a result of numerous historical equity transactions, the Company has experienced "ownership changes" as defined by Section 382 of the Internal Revenue Code of 1986, as amended (the "Code") and, accordingly, the utilization of net operating loss carryforwards is limited under the change in stock ownership rules of the Code.

(11) COMMITMENTS AND CONTINGENCIES

Master Carrier Agreement

In April 2004, the Company entered into a Data Service Terms and Pricing attachment ("MCA Attachment") to its Master Carrier Agreement with AT&T for the purchase of private line and satellite services. Under the MCA Attachment, the term was for a minimum of 18 months with an option by the Company to extend the term for an additional 12 months. Under the MCA Attachment, the Company had a minimum purchase commitment for services equal to $3.6 million during the initial 18 month period. Similar to the original agreement, if the Company terminated the MCA Attachment prior to the end of the term or AT&T terminated the services for the Company's breach, the Company was required to pay to AT&T a termination charge equal to 50% of the unsatisfied minimum purchase commitment for the remaining portion of the term. Under a separate agreement for switched services from AT&T, the Company had an annual commitment of $120,000 per year through September 2006.

In July 2005, the Company entered into a new Master Carrier Agreement (the "2005 MCA") with AT&T for the purchase of all services superceding the agreement described above. Under the 2005 MCA the Company has a minimum purchase commitment of $5 million over the two year term of the agreement. The 2005 MCA also contains the same termination charge of 50% of the unsatisfied minimum purchase commitment.

-15-

Other Telecommunication Services

The Company has committed to purchase from MCI Worldcom a minimum of $900,000 per year in other telecommunication services through March 2007.

Legal Proceedings

Subsequent to September 30, 2005 a former Turkish-based reseller of the Company filed a complaint against the Company in New York alleging breach of contract and other actions and seeking compensatory and punitive damages. The Company believes the allegations are without merit and intends to defend against the complaint vigorously.

(12) STOCKHOLDERS' EQUITY

Common stock

During the nine months ended September 30, 2005, the Company issued 371,901 shares of Class A common stock valued at approximately $374,000 in connection with matching contributions to its 401(k) plan and 130,500 shares of Class A common stock valued at approximately $96,000 in connection with the exercise of employee stock options.

Accumulated other comprehensive loss

Comprehensive income (loss) for the three and nine months ended September 30, 2005 and 2004 was as follows:

($ in thousands)	For the three months ended Sept 30,		For the nine m ended Sept	
	2005	2004 (restated)	2005	20 (res
Net income (loss......................................	$344	$4,216	$(1,632)	$6
Foreign currency translation	(50)	(16)	100	
Unrealized holding gains (losses) on marketable securities	---	387	(520)	
Comprehensive income (loss)	$294	$4,587	$(2,052)	$7

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

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes included elsewhere in this quarterly report.

The condensed consolidated financial statements included herein have been prepared assuming that the Company will continue as a going concern. The Company's former independent registered public accountants have included an explanatory paragraph in their audit report accompanying the 2004 consolidated financial statements. The explanatory paragraph states that the Company has a working capital deficiency and an accumulated deficit that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 1(b) to the Company's consolidated financial statements contained in the Company's Form 10-K/A filed with the Securities and Exchange Commission on December 8, 2005. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

-16-

OVERVIEW

We are a provider of services that facilitate the electronic exchange of information between enterprises, their trading communities and their customers. On an average business day, we handle approximately one million 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 Transaction Management Services and Transaction Delivery Services. Transaction Management Services consist of integrated desktop messaging services and document capture and management services such as fax to database, fax to data and data conversion services. Beginning in 2005, we also began to offer as a Transaction Management Service an enhanced production messaging service that we call EasyLink Production Messaging PM2.0 Service. Transaction Delivery Services consist of electronic data interchange or "EDI," and basic production messaging services utilizing email, fax and telex. As part of our strategy, we will seek to upgrade customers who are using our basic production messaging service to our enhanced production messaging, EasyLink Production Messaging PM2.0 Service. Until July 31, 2004, we also offered MailWatch services to protect corporate e-mail systems, which included virus protection, spam control and content filtering services.

OPERATING RESULTS

For the nine months ended September 30, 2005, we reported an operating loss of $2.1 million and a net loss of $1.6 million. The current period's operating results include a charge of $2.3 million related to the George Abi Zeid Separation agreement, $1.9 million gain on the domain names repurchase agreement and $650,000 in reduced costs and expenses from the MCI Settlement. In comparing the results for the nine months ended September 30, 2005 to the nine months ended September 30, 2004, revenues were down by $10.8 million with a resulting lower gross margin of $5.6 million. Although we increased sales and marketing spending by $1.1 million in the 2005 period as compared to 2004 to promote and sell our newer Transaction Management Services, reductions in general and administrative costs of $2.7 million more than offset that impact. Our operating results had improved throughout 2004 even though revenues declined in comparison to prior years and for the current quarter ended September 30, 2005 we reported net income of $344,000 (including the $1.9 million gain on the domain names repurchase agreement).

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. We believe that of our significant accounting policies, those related to accounts receivable net of allowance for doubtful accounts, long-lived assets and intangible assets, contingencies and litigation, and restructurings represent the most critical estimates and assumptions that affect our financial condition and results of operations as reported in our financial statements.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2004

REVENUES

For the quarter ended September 30, 2005 total revenues were $19.7 million in comparison to $22.5 million for the same period in 2004. As detailed in the schedule below the decline in revenue is attributable to (1) lower revenues in our Transaction Delivery Services amounting to $3.8 million or 20% and (2) $0.4 million in lower MailWatch revenues as a result of the sale of this service line as of July 31, 2004. These declines were partially offset by increased revenues in our Transaction Management Services of $1.4 million representing 46% growth over 2004.

	2005	2004	Change $	Change %
Transaction Management Services	$4,513	$3,093	$1,420	46
Transaction Delivery Services	15,188	18,986	(3,798)	(20
MailWatch	----	430	(430)	
	$19,701	$22,509	$(2,808)	(12

Transaction Delivery Services have been continually impacted by pricing pressures in the telecommunications market and by technological factors that replace or reduce the deployment of such services by our customers. This has led to lower volumes, negotiated individual customer price reductions at the time of service contract renewals and the loss of certain customers. Although we have focused efforts on stabilizing this revenue stream, we believe the trend will continue throughout 2005. We will seek to expand our newer Transaction Management Services and to upgrade customers who are using our basic production messaging services to our enhanced production messaging service, EasyLink Production Messaging PM2.0 Service, to offset the declines so that total company revenues can be positioned to grow beginning in 2006.

COST OF REVENUES

Cost of revenues for the three months ended September 30, 2005 decreased to $8.2 million from $8.6 million in the same period of 2004 but, as a percentage of revenues, these costs increased to 41% in 2005 as compared to 38% in 2004. The higher cost percentage resulted from the lower revenues in the 2005 period only being marginally offset by cost reductions.

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, software license costs, tele-housing costs, the cost of telecommunications services including local access charges, leased network backbone circuit costs, toll-free number and usage charges and long distance domestic and international termination charges, and personnel costs associated with our systems and databases.

SALES AND MARKETING EXPENSES

Sales and marketing expenses increased to $4.7 million in the three months ended September 30, 2005 from $4.3 million in the same period of 2004. The increased expense relates to our increased staff and promotional program spending to expand Transaction Management services. We expect these expenses to continue at the increased levels throughout 2005 and for total sales and marketing costs to be higher than that of 2004.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $5.2 million in the three months ended September 30, 2005 as compared to $6.0 million in the same period of 2004. We anticipate general and administrative expenses in total for the balance of 2005 to be comparable to the results for the three months ended September 30, 2005. These expenses include all costs for our executive, finance and accounting, customer billing and support, human resources and other headquarters office functions. Bad debt expenses, legal and accounting fees, insurance and office rent are other significant costs included in this category.

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 $1.7 million for the three months ended September 30, 2005 and 2004. We anticipate that spending for product development will be comparable to this level throughout 2005 as a result of our efforts to expand the development of the new Transaction Management services.

-18-

OTHER INCOME (EXPENSE), NET

Other income (expense), net amounted to a net other income of $1.1 million in the three months ended September 30, 2005 as compared to a net other expense of $16,000 during the same period of 2004. The 2005 amount includes the $1.9 million gain on the domain name repurchase agreement net of (1) a loss of $469,000 on the sale of marketable securities and (2) an increase in interest expense of $200,000 from the new Wells Fargo Term Loan obtained in December 2004. Interest on the Company's previously outstanding debt, paid off with the Wells Fargo loan proceeds, had been capitalized in accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings", and did not result in charges in the statement of operations. This higher interest expense will continue throughout 2005.

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2004

REVENUES

For the nine months ended September 30, 2005 total revenues were $60.1 million in comparison to $70.9 million for the same period in 2004. As detailed in the schedule below the decline in revenue is attributable to (1) lower revenues in our Transaction Delivery Services amounting to $11.6 million or 19% and (2) $2.5 million in lower MailWatch revenues as a result of the sale of this service line as of July 31, 2004. These declines were partially offset by increased revenues in our Transaction Management Services of $3.3 million representing 37% growth over 2004.

			Change	
	2005	2004	$	%
Transaction Management Services	$12,217	$8,941	$3,276	37
Transaction Delivery Services	47,932	59,486	(11,554)	(19
MailWatch	----	2,472	(2,472)	
	$60,149	$70,899	$(10,750)	(15

Transaction Delivery Services have been continually impacted by pricing pressures in the telecommunications market and by technological factors that replace or reduce the deployment of such services by our customers. This has led to lower volumes, negotiated individual customer price reductions at the time of service contract renewals and the loss of certain customers. Although we have focused efforts on stabilizing this revenue stream, we believe the trend will continue throughout 2005. We will seek to expand our newer Transaction

Management Services and to upgrade customers who are using our basic production messaging services to our enhanced production messaging service, EasyLink Production Messaging PM2.0 Service, to offset the declines so that total company revenues can be positioned to grow beginning in 2006.

COST OF REVENUES

Cost of revenues for the nine months ended September 30, 2005 decreased to $22.9 million from $28.1 million in the same period of 2004. As a percentage of revenues these costs decreased to 38% in 2005 as compared to 40% in 2004. The 2005 costs are net of $540,000, or 1% of revenues, from the MCI Settlement. Cost of revenue reflects a decrease in costs as a percentage of revenue as a result of lower expenses for most items in this cost category including lower depreciation charges, savings from continuing cost reduction programs in network operations, lower telecom rates, favorable settlement dispute, reductions in facilities, including reducing the number of circuits, and reduced variable telecom charges consistent with reduced customer volumes.

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, software license costs, tele-housing costs, the cost of telecommunications services including local access charges, leased network backbone circuit costs, toll-free number and usage charges and long distance domestic and international termination charges, and personnel costs associated with our systems and databases.

SALES AND MARKETING EXPENSES

Sales and marketing expenses increased to $14.7 million in the nine months ended September 30, 2005 from $13.6 million in the same period of 2004. The increased expense relates to our increased staff and promotional program spending to expand Transaction Management Services.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $15.4 million in the nine months ended September 30, 2005 as compared to $18.1 million in the same period of 2004. These expenses include all costs for our executive, finance and accounting, customer billing and support, human resources and other headquarters office functions. Bad debt expenses, legal and accounting fees, insurance and office rent are other significant costs included in this category. The lower expenses of $2.7 million occurred in various cost components resulting from planned cost reduction programs and $384,000 in reduced bad debt which included the $110,000 recovery from the MCI Settlement in June 2005.

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 $5.1 and $5.0 million for the nine months ended September 30, 2005 and 2004.

OTHER INCOME (EXPENSE), NET

Other income (expense), net amounted to a net other income of $507,000 in the nine months ended September 30, 2005 as compared to a net other expense of $234,000 during the same period of 2004. The 2005 amount includes the $1.9

million gain on the domain name repurchase agreement net of (1) a loss of $469,000 on the sale of marketable securities and (2) an increase in interest expense of $626,000 from the new Wells Fargo Term Loan obtained in December 2004. The increase in interest expense was due to interest charges in the current period from the new Wells Fargo Term Loan obtained in December 2004. Interest on the Company's previously outstanding debt, paid off with the Wells Fargo loan proceeds, had been capitalized in accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings", and did not result in charges in the statement of operations. This higher interest expense will continue throughout 2005.

LIQUIDITY AND CAPITAL RESOURCES

In 2004 and 2003 we had significantly improved our financial condition by (1) reducing operating costs through the consolidation of operations and other cost reduction programs; (2) restructuring our debt obligations and entering into a new credit financing with Wells Fargo; and (3) selling our non-core domain assets and our MailWatch service line.

In December 2004 we entered into an agreement with Wells Fargo Foothill, Inc., a subsidiary of Wells Fargo, for a credit facility of $15 million, including a $12 million term loan. In December 2004, we used $9.5 million of the proceeds from the term loan to pay off all our secured debt, which included a scheduled balloon payment of $5.8 million in June 2006, and in February 2005 we used an additional $1.4 million of proceeds to pay off subordinated debt in February 2005. The Wells Fargo term loan is repayable at $200,000 per month for 60 months although there are mandatory prepayments under certain conditions. The credit facility also provides for other advances of $3 million initially, but increasing to $7.5 million upon our meeting certain conditions. We have approximately $1 million of advances outstanding as of September 30, 2005 for working capital purposes. The covenants of the credit facility restrict the amount of our capital expenditures to $6.0 million in 2005 and $4.0 million per year thereafter. The credit facility also requires that our operations have minimum EBITDA results on a quarterly and annual basis. Failure to comply with these minimum requirements could result in the acceleration of the payment of the term loan as well as any future revolving credit advances made under the agreement. The credit facility also restricts the incurrence of indebtedness. The Company was in compliance with the capital expenditures and EBITDA covenants through September 30, 2005, but currently expects that it may not be in compliance with the EBITDA covenant, as revised, as of December 31, 2005. The Company has requested that Wells Fargo modify or waive the EBITDA covenant for the period ending December 31, 2005, as necessary, in order to maintain compliance. For the nine months ended September 30, 2005 although our cash from operations amounted to $458,000 and cash from discontinued operations amounted to $400,000, our cash and cash equivalents decreased by $3.8 million because we used $2.3 million in investing activities and $2.5 million in financing activities. Investing activities include $3.8 million of purchases of equipment largely related to our new network facility in Piscataway, NJ. The facility has been completed so that additional capital expenditures will be at lower amounts for the balance of 2005. This spending was offset by $1.0 million in proceeds from the sale of marketable securities and $0.8 million in proceeds from the sale of the domain names repurchase rights. Financing activities include $3.2 million in long term debt repayments net of $1.0 million in net borrowings from our credit arrangement with Wells Fargo and other items amounting to a net of $0.3 million. Repayments of long term debt for the balance of 2005 will amount to $0.6 million

We believe our current cash and cash equivalent balances, the availability of funds under the credit facility and cash from operations will provide adequate funds for operating and other planned expenditures and debt service, including the expansion of our sales and marketing force and our capital spending programs, for at least the next twelve months.

For each of the years ended December 31, 2004 and 2003, we received a report from our former independent registered public accountants containing an explanatory paragraph stating that we have a working capital deficiency and an accumulated deficit that raises substantial doubt about our ability to continue as a going concern. Management's plans in regard to this matter are described in Note 1(b) to our annual financial statments. Our 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. If the Company's cash flow is not sufficient, we may need additional financing to meet our debt service and other cash requirements. 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. 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, and to maintain profitable operations. Throughout 2002, 2003 and 2004, management improved the Company's operations through cost reductions resulting in net cash from operations of $2.2 million, $7.7 million and $6.0 million, respectively, for those years. During those years, the Company reduced its working capital deficit to $19.6 million at year end 2002, to $11.8 million at year end 2003 and to $31,000 at year end 2004. During 2003, the Company reduced its debt by $63.0 million. In December, 2004, the Company refinanced its remaining secured debt through a new credit facility with Wells Fargo Foothill, Inc. In 2005, management is continuing the process of further reducing telecommunications and network-related operating costs and general and administrative expenses while increasing its sales and marketing efforts in order to increase revenues in future periods. There can be no assurance that the Company will be successful in these efforts.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)) which replaces SFAS 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees. Among other items, SFAS 123(R) eliminates the use of APB 25 and the intrinsic method of accounting, and requires all share-based payments, including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS 123(R) is effective for public companies beginning with the first interim period that begins after June 15, 2005. The adoption date was effectively changed to the first annual period starting after June 15, 2005 by the Securities and Exchange Commission. As a result, the Company will adopt SFAS 123(R) in 2006 and in accordance with its provisions will recognize compensation expense for all share-based payments and employee stock options based on the grant-date fair value of those awards. The Company is currently evaluating the impact of the statement on its financial statements. See Note 1 (h) for the proforma effect of SFAS 123 on the reported net income (loss) for the three and nine month periods ended September 30, 2005 and 2004.

In December 2004, the FASB issued FSP FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004". The American Jobs Creation Act of 2004 introduces a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. FSP FAS 109-2 gives a company additional time to evaluate the effects of the legislation on any plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109, Accounting for Income Taxes. The deduction is subject to a number of limitations, and uncertainty remains as to how to interpret numerous provisions in the Act. As such, the Company is not in a position to decide on whether, and to what extent, it might repatriate foreign earnings that have not yet been remitted to the U.S. based on its analysis to date. The Company expects to be in a position to finalize its assessment by December 31, 2005.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from fluctuations in foreign exchange rates, credit risk and interest rate 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.

Credit Risk - Our accounts receivable 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 excess of the allowance for doubtful accounts.

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 equivalents have original maturities of three months or less. Changes in the market's interest rates do not affect the value of these investments. In December 2004 we entered into a variable interest rate credit agreement with Wells Fargo that creates an interest rate risk for the Company on the $12 million Term Loan as well as the outstanding working capital advance of $950,000.. The impact of this risk assuming the current amortization schedule of the outstanding Term Loan and a hypothetical shift of 1% in interest rates would be an increase or decrease, as applicable, in annual interest costs of $99,000 related to the Term Loan and the currently outstanding advance amount. The Company has considered the use of interest rate swaps and similar transactions to minimize this risk but has not entered into any such arrangements to date. The Company intends to continue to evaluate this risk and the cost and possible implementation of such arrangements in the future.

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 our Document Capture and Management Services which began to generate revenues in 2003. Our success will depend in part upon our ability to maintain or expand our sales of transaction delivery services, our ability to successfully develop transaction management services, the development of a viable market for fee-based 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 FROM OPERATIONS IN PRIOR YEARS.

We achieved income from operations for a full fiscal year for the first time in 2004, but we may not be able to sustain profitability. We had net income of $50.9 million for the year ended December 31, 2003; however, the net income for 2003 included $54.1 million of gains on debt restructuring and settlements. For years prior to 2003 and since our inception in 1999 we incurred net losses in every year resulting in an accumulated deficit of $540.7 million as of December 31, 2004. For the nine months ended September 30, 2005, we had a loss from operations of $2.1 million and a net loss of $1.6 million.

We intend to upgrade and enhance our technology and networks, increase our sales and marketing expenditures 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 assets, including goodwill, booked as a result of such acquisitions or investments. We intend to make 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 in each of the years ended December 31, 2004, 2003 and 2002 as compared to the prior year. See Part II, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K/A and subsequent filings with the SEC. If we do not succeed in maintaining or increasing our revenues, our losses may continue.

WE MAY NEED TO RAISE CAPITAL IN THE FUTURE TO INVEST IN THE GROWTH OF OUR BUSINESS AND TO FUND NECESSARY EXPENDITURES.

We may need to raise additional capital in the future. See Part I. Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources contained in our Annual Report on Form 10-K/A and subsequent filings with the SEC. At September 30, 2005, we had $8.4 million of cash and cash equivalents. Our principal fixed commitments consist of obligations under a credit agreement, obligations under capital leases, obligations under office space leases, accounts payable and other current obligations, commitments for capital expenditures and commitments for telecommunications services. For each of the five years ended December 31, 2004, 2003, 2002, 2001 and 2000, we received a report from our independent accountants containing an explanatory paragraph stating that we have a working capital deficiency and an accumulated deficit 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, although we do not anticipate paying any cash dividends on our stock in the foreseeable future.

WE HAVE INCURRED SIGNIFICANT INDEBTEDNESS FOR MONEY BORROWED, AND WE MAY BE UNABLE TO PAY DEBT SERVICE ON THIS INDEBTEDNESS.

As of September 30, 2005, we had outstanding a term loan of $10.2 million payable over the next 51 months; obligations under office space leases; and commitments for telecommunications services. We currently have $2.4 million in principal payments and additional amounts in interest payments due during the twelve month period after September 30, 2006. Our credit facility with Wells Fargo requires us to maintain minimum specified levels of EBITDA and prohibits us from incurring capital expenditures in excess of specified amounts. See "Management's Discussion and Analysis - Liquidity and Capital Resources" contained in our Annual Report on Form 10-K/A and subsequent filings with the SEC. We received a waiver of the capital expenditures covenant for 2004.

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 such as the EBITDA or capital expenditures covenants, 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.

The elimination of outstanding debt pursuant to our debt restructuring completed in 2003 and prior years resulted 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 a result, we do not expect to incur any material current income tax liability from 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. 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.

WHERE RESOURCES PERMIT, 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 in 1999. For example, we acquired NetMoves Corporation, a provider of production messaging services and integrated desktop messaging services to businesses. We also acquired Swift Telecommunications, Inc. and the EasyLink Services business that it had contemporaneously acquired from AT&T Corp. On August 1, 2005, we acquired Quickstream Software, Inc. Where resources permit, 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 incur acquisition expenses or amortize or depreciate acquired intangible and tangible assets or to incur impairment charges as a result of the write-off of assets, including goodwill, recorded 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.

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. The Transition Services Agreement expired on January 31, 2003. However, the network for the portion of this business relating to EDI, fax and email services continues to reside on AT&T's premises under an agreement with AT&T, but is being operated and maintained by EasyLink. This agreement expires on June 30, 2006, and AT&T has informed us that they will not extend the agreement beyond this date. If we are unable to extend the agreement, we will need to either migrate the network off of the AT&T premises to EasyLink's premises or migrate the customers to a replacement network. As a result, we have built a new network center at our corporate headquarters located in Piscataway, New Jersey and have commenced the migration of these operations to this center.

We cannot assure you that we will be able to successfully migrate the remaining EasyLink Services customers or 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 might result in a material adverse effect on our business, results of operations and financial condition.

OUTSOURCING OF TRANSACTION MANAGEMENT SERVICES MAY NOT PROVE TO BE A VIABLE BUSINESS.

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 development of viable markets for the outsourcing of new transaction management services which is somewhat speculative.

There are significant obstacles to the full development of a sizable market for the outsourcing of 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 service, however, are likely to be of concern to enterprises and service providers deciding whether to outsource their 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 the adoption of SFAS 123R, "Share-Based Payment," which requires the recognition of compensation expense for all share-based payments and employee stock options beginning in the third quarter of 2005;

- 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.

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" contained in our Annual Report on Form 10-K and subsequent filings with the SEC.

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.

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 Thomas F. Murawski, our President and Chief Executive Officer, and Michael A. Doyle, our Vice President and Chief Financial Officer. The loss of the services of Messrs. Murawski or of Mr. Doyle, 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, customers 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 service fee rebates or monetary damages.

WE MAY NEED TO UPGRADE SOME OF 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 Glen Head, New York; Jersey City, New Jersey; Piscataway, New Jersey; Washington, DC; Bridgeton, Missouri; Dayton, Ohio, and London, England. 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. We plan to consolidate over time an increasing portion of our computer systems and networks, including the migration of the network equipment from the leased AT & T facility to our corporate headquarters. 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 develop or 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.

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, message content, stored email or other personal or business information or similar information relating to our customer's customers. Our customers or their employees or customers 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, denial of service attacks 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 and 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. This is particularly the case for customers in the health insurance and financial services industries, which are subject to legal requirements governing the security and confidentiality of customer information.

WE ARE DEPENDENT ON LICENSED TECHNOLOGY AND THIRD PARTY COMMERCIAL PARTNERS.

We license a significant amount of technology from third parties, including technology related to our Internet fax services, billing processes and databases. We also rely on third party commercial partners to provide services for our trading community enablement services, document capture and management services and some of our other services. We anticipate that we will need to license additional technology or to enter into additional commercial relationships to remain competitive. We may not be able to license these technologies or to enter into arrangements with prospective commercial partners on commercially reasonable terms or at all. Third-party licenses and strategic commercial relationships 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 or service fee costs, and the possible termination of or failure to renew an important license or other agreement by the third-party licensor or commercial partner.

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 Corporation, MCI and XO Communications 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 complete the migration of the network relating to our business acquired from AT&T off of AT&T premises" above, and "Item 1. Business - Technology" contained in our Annual Report on Form 10-K and subsequent filings with the SEC.

OUR INTERNATIONAL OPERATIONS ARE SUBJECT TO SIGNIFICANT RISKS AND OUR OPERATING RESULTS MAY SUFFER IF OUR REVENUES FROM INTERNATIONAL OPERATIONS DO NOT EXCEED

THE COSTS OF THOSE OPERATIONS.

We operate in international markets. We may not be able to compete effectively in these markets. If our revenues from international operations do not exceed the expense of establishing and maintaining these operations, 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;

- terrorism; 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.

Currently, few laws or regulations specifically regulate activity on the Internet. With some exceptions, online activity is not subject to laws and regulations that differ from those applicable to offline activities. In cases where online activity is subject to unique regulatory regimes, those regulatory approaches currently tend to be less burdensome than their offline counterparts.

Laws and regulations may, however, be adopted in the future to address issues such as user privacy, pricing, and the characteristics and quality of products and services in the online context specifically, or to impose traditional regulatory paradigms on online activity. The Federal Communications Commission ("FCC") is currently considering whether to impose certain regulations on some entities that provide service using the Internet or Internet protocol ("IP"), including but not limited to voice over Internet Protocol ("VoIP") telephony. Such potential rules could include requirements to provide enhanced 911 capability, ensure access for disabled persons, cooperate with law enforcement, contribute to universal service funds, and pay for using the public telephone network. Any of these requirements, if applicable to a given service, could increase the cost of providing that service. It cannot yet be predicted whether those rules will be adopted at all and, if so, whether they would be applied to our non-voice services.

The Company and its customers are subject to laws and regulations protecting personal and other confidential information in connection with the exchange of this information by these customers using the Company's services.

At present, in the United States, interactive Internet-based service providers have substantial legal protection for the transmission of third-party content that is infringing, defamatory, pornographic, or otherwise illegal. We cannot guarantee that a U.S. court would not conclude that we do not qualify for these protections as an interactive service provider. We do not and cannot screen all of the content generated and received by users of our services or the recipients of messages delivered through our services. Some foreign governments, such as Germany and France, have enforced content-related laws and regulations against Internet service providers.

We believe that our services are "information services" under the Telecommunications Act of 1996 and related precedent and therefore would not currently be subject to traditional U.S. telecommunication services regulation. Although the FCC has indicated that it views Internet-based services as being interstate and subject to the protection of federal laws that warrant preemption of state efforts to impose traditional common carrier regulation on such services, the FCC's efforts are currently under legal challenge and we cannot predict the outcome of state efforts to regulate such services or the scope of federal policy to preempt such efforts. While the FCC historically has refrained from regulating IP-based communications, it has also sought comment about whether and to what extent it should regulate such communications in the future.

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 of operations.

FCC regulations require providers of telecommunications services to contribute to the Universal Service Fund, a fund established to subsidize telecommunications service in rural areas in the United States. Such providers are authorized to then pass those contribution costs on to their customers; our costs for telecommunications services that we purchase thus reflect these amounts. The contributions are currently calculated as a percentage of telecommunications services revenues. Alternative contribution methodologies, such as the imposition of a fee per telephone line, and other changes have been proposed that could increase these amounts and thus our costs in purchasing such telecommunications services. If adopted, these changes may in turn require us to raise the price of one or more of our services to our customers. No assurance can be given that we will be able to recover all or part of any increase in costs that may result from these changes if adopted by the FCC or that such changes will not otherwise adversely affect the demand for our services.

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 these countries, and the failure to satisfy such requirements may prevent us from installing Internet-capable fax nodes in such countries or require us to limit the functionality of such nodes. 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 telex switches utilize encryption technology. 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 countries such as Cuba, Iran, Libya, Syria, Sudan and North Korea. 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 that could severely limit our ability to conduct business in these countries. To the extent that we develop or offer messaging or other services in foreign countries, we will be subject to the laws and regulations of these countries. The laws and regulations relating to the Internet and telecommunications services in many countries are evolving and in many cases are more burdensome than U.S. law and/or unclear as to their application. For example, in India, the Peoples Republic of China, 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 specified percentages of the entities through which we propose to conduct any regulated activities. If these limitations apply to our activities (including 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.

The status of United States patent protection for software products and services is not well defined and will evolve as additional patents are granted. The United States Patent and Trademark Office has filed an office action rejecting the claims in a patent application that we filed. Although we may continue to pursue this patent application in its current or a modified form, we do not know if our application will be issued with the scope of the claims we seek or 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.

WE MAY INCUR EXPENSES AND LIABILITIES AS A RESULT OF PENDING LEGAL PROCEEDINGS.

The Company is involved in legal proceedings that may result in additional expenses or liability. See "Legal Proceedings" contained in Part I, Item 3 of our Annual Report on Form 10-K and subsequent filings with the SEC. These proceedings include a broker's fee dispute in which the Company successfully appealed a $931,000 judgment imposed on it and which is currently on remand to the United States District Court. Although the Company intends to pursue its defense of these matters vigorously, no assurance can be given that the Company's efforts will be successful. To the extent that the Company is not successful in the remand proceeding, it may be required to pay any judgment that may be rendered in such proceeding. Although we intend to defend vigorously these matters, we cannot assure you that our ultimate liability, if any, in connection with these matters will not have a material adverse effect on our results of operations, financial condition or cash flows.

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 October 31, 2005, we had an aggregate of 45,145,637, shares of Class A common stock outstanding. As of October 31, 2005, we had options to purchase 5,251,867 shares of Class A common stock outstanding and warrants to purchase 798,523 shares of Class A common stock outstanding.

As of October 31, 2005, substantially all of the shares of our outstanding Class A common stock were freely tradable, in some cases subject to the volume and manner of sale limitations contained in Rule 144. 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 23.6 million of our outstanding shares were issued in connection with the elimination of debt during the nine months ended September 30, 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.

The holders of approximately 8.2 million shares of outstanding Class A common stock and the holders of 0.8 million shares of Class A common stock issuable upon exercise of our outstanding warrants 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. In addition, the listing standards require that we comply with our SEC periodic reporting requirements and 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.

On August 23, 2005, the Company received notice from The NASDAQ Stock Market, Inc. Listing Qualifications Staff that the Company has failed to comply with the filing requirement for continued listing set forth in Nasdaq Marketplace Rule 4310(c)(14) due to the Company's failure to file its quarterly report on Form 10-Q for the three months ended June 30, 2005 on a timely basis and that its common stock is therefore subject to potential delisting from The Nasdaq National Market. On September 29, 2005, the Company appeared before a Nasdaq Listing Qualifications Panel to request an extension of time to file its Quarterly Reports on Form 10-Q for the quarters ending June 30, 2005 and September 30, 2005. On November 7, 2005, the Company received notice that the Panel granted the Company's request for an extension until December 19, 2005 to file these reports. On December 7, 2005, the Company received notice from The NASDAQ Stock Market, Inc. Listing Qualifications Staff that the Company has failed to comply with the filing requirement for continued listing set forth in Nasdaq Marketplace Rule 4310(c)(14) due to the Company's failure to file its quarterly report on Form 10-Q for the three months ended September 30, 2005 on a timely basis. The December 7, 2005 notice had no effect on the Panel's determination to grant the Company an extension until December 19, 2005 to complete these filings. The Company has cured the filing deficiency relating to its Form 10-Q for the quarter ending June 30, 2005 by the filing of that report on December 15, 2005 and the Company believes that it has cured the filing deficiency relating to its Form 10-Q for the quarter ended September 30, 2005 by the filing of this report. The Company's stock will remain listed on The NASDAQ National Market under the trading symbol "EASYE" during the pendency of the Company's filing delinquency.

On August 23, 2005, the Company also received notice from The NASDAQ Stock Market, Inc. Listing Qualifications Staff that for 30 consecutive trading days the bid price of its common stock closed below the minimum $1.00 per share required for continued inclusion under Nasdaq Marketplace Rule 4450(a)(5) (the "Minimum Bid Price Rule"). The August 23, 2005 letter from Nasdaq indicates that, in accordance with Nasdaq Marketplace Rule 4450(e)(2), the Company has until February 21, 2006 (180 calendar days from the date of the letter) to regain compliance with the Minimum Bid Price Rule. The Company may regain compliance with the Minimum Bid Price Rule if, at any time before February 21, 2006, the bid price of its common stock closes at $1.00 per share or more for a minimum of ten consecutive trading days. The Nasdaq staff may, in its discretion, require the Company to maintain a bid price of at least $1.00 per share for a period in excess of ten consecutive business days (but generally no more than 20 consecutive business days) before determining that the Company has demonstrated the ability to maintain long-term compliance. The letter states that, if compliance with the minimum Bid Price Rule cannot be demonstrated by February 21, 2006, the Nasdaq staff will provide written notification that the Company's common stock will be delisted, and at that time the Company may appeal the staff's determination to a Listing Qualifications Panel. The letter also indicates that, alternatively, the Company may apply to transfer its common stock to The Nasdaq SmallCap Market if the Company satisfies the requirements for initial inclusion on the Nasdaq SmallCap Market, other than the Minimum Bid Price Rule, and that if the application is approved, the Company will be afforded the remainder of the Nasdaq SmallCap Market's additional 180-day compliance period to regain compliance with the Minimum Bid Price Rule while on the Nasdaq SmallCap Market.

In addition to requiring that the Company cure the filing deficiency and regain compliance with the $1 minimum bid price requirement by February 21, 2006, the November 7, 2005 letter from the Nasdaq Listing Qualifications Panel imposed a monitoring condition on the Company that states that the Company's Form 10-Q for the quarter ended September 30, 2005 and Form 10-K for the year ended December 31, 2005 must report stockholders' equity of at least $10 million.

We had a total stockholders' equity in the amount of $12.0 million as of September 30, 2005 in comparison to the $10 million minimum total stockholders' equity requirement.

No assurance can be given that the Company will be able to regain compliance with the Minimum Bid Price Rule by February 21, 2006, that it will be eligible to transfer to The Nasdaq SmallCap Market or that, if it is able to transfer to The Nasdaq SmallCap Market, that it will be able to regain compliance with the Minimum Bid Price Rule within any additional compliance period.

If the Company is unable to complete its filings by December 19, 2005 and meet all of the other listing standards by the dates indicated, including the $1 minimum bid price requirement and the total stockholders' equity requirement, its securities will be subject to delisting from the Nasdaq National Market.

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 BE EXPOSED TO POTENTIAL RISKS RELATING TO OUR INTERNAL CONTROLS OVER FINANCIAL REPORTING AND OUR ABILITY TO HAVE THOSE CONTROLS ATTESTED TO BY OUR INDEPENDENT AUDITORS.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX 404"), the Securities and Exchange Commission adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports, including Form 10-KSB. In addition, the independent registered public accounting firm auditing a company's financial statements must also attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting as well as the operating effectiveness of the company's internal controls. We were not subject to these requirements for the year ended December 31, 2004 and will not be subject to these requirements for the year ended December 31, 2005. We have commenced the process of planning for the implementation of Section 404 reporting.

While we expect to expend significant resources in developing the necessary documentation and testing procedures required by SOX 404, there is a risk that we will not comply with all of the requirements imposed thereby. We can not assure you that we will receive a positive attestation from our independent auditors. In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner or we are unable to receive a positive attestation from our independent auditors with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements, our stock price may decline and our ability to obtain equity or debt financing could suffer.

ITEM 4 CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, include controls and procedures designed to ensure that information required to be disclosed by the company in the reports we file or submit under the Exchange Act is accumulated and communicated to our Company's management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met.

As required by Securities and Exchange Commission rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report. This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that, in light of the material weaknesses described below, as of September 30, 2005, the Company's disclosure controls and procedures were not effective.

As a result of these control deficiencies, management performed additional procedures to ensure that the Company's condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, the Company believes that the financial statements included in this report fairly present in all material respects the Company's financial condition, results of operations and cash flows for the periods presented in accordance with generally accepted accounting principles.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed under the supervision of the principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As a result of the errors described in Note 2 to the condensed consolidated financial statements included in the Company's Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2005 that underlie the restatement of its financial statements for the year ended December 31, 2004 and the quarter ended March 31, 2005, the Company identified the following material weaknesses in its internal control over financial reporting:

1. As of March 31, 2005, the Company did not have the appropriate level of expertise to properly calculate and review its accounting for income taxes in its foreign subsidiaries. Specifically, the Company estimated its UK subsidiaries' UK income tax liability based on information contained in its statutory reports. These reports incorrectly stated the amount of net operating losses available to the UK subsidiaries as of December 31, 2003. The Company did not have the appropriate control procedures to determine the accuracy of the net operating loss information contained in the statutory reports. This control deficiency resulted in the restatement of the Company's consolidated financial statements at December 31, 2004 and for the year then ended and at March 31, 2005 and for the three months then ended.

2. As of March 31, 2005, the Company did not maintain effective controls over the accounting for and review of certain accounts because it did not have adequate personnel with sufficient expertise and adequate review and reconciliation procedures to correctly account for such transactions in accordance with generally accepted accounting principles. These accounts included certain accrued expense liabilities, fixed assets, accumulated depreciation, currency translation gains and losses and related costs and expenses. This control deficiency contributed to the restatement of the Company's consolidated financial statements at December 31, 2004 and for the year then ended and at March 31, 2005 and for the three months then ended.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting during the quarter ended September 30, 2005 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. During November 2005, we implemented the changes in our internal control over financial reporting described below in this Item 4 to address the identified material weaknesses described above.

Remediation Measures for Identified Material Weaknesses

During November, 2005, we made the following changes in our internal control over financial reporting in an effort to remediate the material weaknesses related to the accounting for foreign income taxes, certain expense liabilities, currency translation gains and losses, fixed assets, depreciation expense and cost of revenues:

1. Hired additional accounting personnel in both our domestic and international finance offices with the appropriate background and certification.

2. Expanded the existing balance sheet review process by increasing the accounts and items slected for a more detailed review.

3. Enhanced the levels of review for the quarterly and annual income tax provision.

Although we believe the steps taken to date have improved the design effectiveness of our control over the accounting for foreign income taxes, certain expense liabilities, currency translation gains and losses, fixed assets, depreciation expense and cost of revenues, we have not completed our review and testing of the corrective processes and procedures. Accordingly, we will continue to monitor the effectiveness of our internal controls over financial reporting relating to the review of our accounting for foreign income taxes, certain expense liabilities, currency translation gains and losses, fixed assets, depreciation expense and cost of revenues.

PART II OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

As previously disclosed, the Company was subject to a judgment in the amount of approximately $931,000 in connection with a dispute between the Company and a broker arising out of the termination of an agreement to sell the portal operations of the Company's discontinued India.com business. The judgment was based on the District Court's finding that the broker was a third party beneficiary of the terminated agreement. The Company and the broker appealed the decision of the District Court to the United States Court of Appeals for the Second Circuit. On June 20, 2005, the Court of Appeals reversed the District Court's ruling that the broker was a third party beneficiary of the terminated agreement and set aside the $931,000 of damages awarded against the Company by the District Court. The Court of Appeals also rejected the broker's claim on appeal for additional damages. The Court of Appeals, however, also determined that the District Court had not fully resolved the issue of whether the Company had in bad faith breached the agreement to sell the portal operations for the express purpose of avoiding the broker's commission. Accordingly, the Court of Appeals remanded the case to the District Court for further consideration. The broker subsequently filed a petition for rehearing with the Court of Appeals. On July 20, 2005, the Court of Appeals denied the broker's petition.

On November 14, 2005, a former Turkish-based reseller of the Company named Arisegroup and its principals filed what purported to be a derivative complaint on behalf of a recently formed Turkish entity against the Company, certain of the Company's current and former directors and officers and Swift Comtext Limited, a UK subsidiary of the Company, in the Supreme Court of the State of New York, County of New York. The complaint alleges breach of contract, tortious interference with contract, unjust enrichment, conversion, misappropriation of corporate opportunity, breach of fiduciary duties and fraud in the inducement and makes a claim for an accounting. The complaint seeks relief in the form of, among other relief, compensatory damages "in an amount in excess of $5,000,000.00", punitive damages "in an amount in excess of $10,000,000.00," pre-judgment interest and costs. The complaint arises out of the termination of a reseller/sponsorship arrangement between Arise and the Company and alleges the defendants agreed to establish and operate a corporation to conduct and expand EasyLink's business in Turkey and that "plaintiffs" would own 50% of the corporation. As of the date of filing of this report, the Company and, to the Company's knowledge, the other defendants have not yet been served. The Company believes that the allegations against the Company and the individual defendants are without merit. The Company intends to defend the complaint vigorously and to pursue available remedies for the filing this complaint.

The Company has settled the third party claim against it for implied indemnification and/or contribution arising out of a putative class action against Steven Brin and other defendants for allegedly sending or causing to be sent unsolicited advertisements to telephone facsimile machines in violation of the federal Telephone Consumer Protection Act, 47 U.S.C. ss. 227, the Illinois Consumer Fraud and Deceptive Business Practices Act and common law conversion and trespass. The claims were dismissed with prejudice on August 18, 2005. Under the signed settlement agreement, which is subject to approval by the court, the Company contributed $1,500 to a $22,000 overall settlement of the underlying action against Mr. Brin and the other defendants.

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

During the three months ended September 30, 2005, the Company issued 151,348 shares of Class A common stock valued at approximately $126,000 in connection with matching contributions to its 401(k) plan. These issuances were not subject to the registration requirements of the Securities Act because the issuance of the shares was not voluntary and contributory on the part of employees.

On August 1, 2005, the Company committed to issue an aggregate of 425,000 shares in connection with the acquisition of Quickstream Software, Inc. ("Quickstream"). Of this amount, 419,304 shares have been issued through the date of this report. A portion of the shares were issued to certain stockholders and holders of debt and other obligations of Quickstream pursuant to the exemption under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Regulation D promulgated thereunder. The balance of the shares was granted to former employees of Quickstream who became employees of the Company in a transaction not subject to the registration requirements of the Securities Act because the issuance of the shares was not voluntary and contributory on the part of employees

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 6: EXHIBITS

The following exhibits are filed as part of this report:

Exhibit 31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer
Exhibit 31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
Exhibit 32.1	Section 1350 Certification of the Chief Executive Officer
Exhibit 32.2	Section 1350 Certification of the Chief Financial Officer

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/ Michael A. Doyle

Michael A. Doyle
Vice President and Chief Financial Officer

December 19, 2005

Exhibit Index

Exhibit 31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer
Exhibit 31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
Exhibit 32.1	Section 1350 Certification of the Chief Executive Officer
Exhibit 32.2	Section 1350 Certification of the Chief Financial Officer