EASYLINK SERVICES CORP
Form 10-Q
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2002

OR

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

Commission File Number 0-26371

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

Delaware (State or other Jurisdiction of) Incorporation or Organization)	13-3787073 (I.R.S. Employer Identification No.)
399 Thornall Street, Edison, NJ (Address of Principal Executive Office)	08837 (Zip Code)

(732) 906-2000
(Registrant's Telephone Number Including Area Code)

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

Common stock outstanding at July 31, 2002: Class A common stock $0.01 par value 15,718,291 shares, and Class B common stock $0.01 par value 1,000,000 shares.

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

ASSETS	June 30, 2002 (unaudited)
Current assets:	
Cash and cash equivalents..	$ 12,042
Accounts receivable, net of allowance for doubtful accounts	

$13,360 and $14,547 as of June 30, 2002 and December 31, 2001, respectively	15,574
Prepaid expenses and other current assets	2,785
Total current assets	30,401
Property and equipment, net	18,360
Investments	1,535
Goodwill	68,835
Intangible assets, net	34,750
Other	1,857
Total assets	$155,738

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	$ 13,310
Accrued expenses	24,993
Restructuring reserves payable	435
Current portion of capital lease obligations	443
Current portion of notes payable	1,720
Current portion of capitalized interest on notes payable	1,649
Deferred revenue	445
Other current liabilities	639
Net liabilities of discontinued operations	417
Total current liabilities	44,051
Capital lease obligations, less current portion	414
Capitalized interest on notes payable, less current portion	11,565
Notes payable	79,272
Total liabilities	135,302
Contingent share issuance on notes payable	1,025
Stockholders' equity:	
Common stock, $0.01 par value; 510,000,000 shares authorized at June 30, 2002 and December 31, 2001, respectively:	
Class A--500,000,000 shares authorized at June 30, 2002 and December 31, 2001; 15,596,675 and 14,580,211 shares issued and outstanding at June 30, 2002 and December 31, 2001, respectively	156
Class B--10,000,000 shares authorized at June 30, 2002 and December 31, 2001, respectively, 1,000,000 issued and outstanding at June 30, 2002 and December 31, 2001	10
Additional paid-in capital	536,683
Deferred compensation	--
Accumulated other comprehensive loss	(61)
Accumulated deficit	(517,377)
Total stockholders' equity	19,411
Commitments and contingencies	
Total liabilities and stockholders' equity	$ 155,738

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 Mon
	2002
Revenues	$ 30,029
Cost of revenues	14,282
Gross profit	15,747
Sales and marketing	5,308
General and administrative	7,145
Product development	1,566
Amortization of goodwill and other intangible assets	1,687
Impairment of intangible assets	--
Restructuring and impairment charges	--
Total operating expenses	15,706
Income (loss) from operations	41
Other income (expense):	
Interest income	35
Interest expense	(1,331)
Impairment of investments	--
Other, net	(24)
Total other (expense) income, net	(1,320)
Minority interest	--
Loss from continuing operations	(1,279)
Loss from discontinued operations	--
Loss before extraordinary item	(1,279)
Extraordinary gains	--
Net loss	$(1,279)
Basic and diluted net loss per share:	
Loss from continuing operations	$ (0.08)
Loss from discontinued operations	--
Extraordinary gains	--
Net loss	$ (0.08)
Weighted-average basic and diluted shares outstanding	16,541,485

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Month
	2002
Revenues	$ 60,334
Cost of revenues	30,154
Gross profit	30,180
Sales and marketing	10,620
General and administrative	14,417
Product development	3,339
Amortization of goodwill and other intangible assets	3,376
Impairment of intangible assets	--
Restructuring and impairment charges	--
Loss on sale of business	--
Total operating expenses	31,752
Loss from operations	(1,572)
Other income (expense):	
Interest income	147
Interest expense	(2,491)
Impairment of investments	--
Other, net	(15)
Total other (expense) income, net	(2,359)
Minority interest	--
Loss from continuing operations	(3,931)
Loss from discontinued operations	--
Loss before extraordinary item	(3,931)
Extraordinary gains	--
Net loss	$ (3,931)
Basic and diluted net loss per share:	
Loss from continuing operations	$ (0.24)

Loss from discontinued operations		--
Extraordinary gains		--
Net loss	$	(0.24)
Weighted-average basic and diluted shares outstanding		16,354,879

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months En
	2002
Cash flows from operating activities:	
Net loss	$ (3,931)
Adjustments to reconcile net loss to net cash used in operating activities:	
Loss from discontinued operations	--
Amortization of partner advances	--
Non-cash interest	1,464
Depreciation and amortization	5,033
Amortization of goodwill and other intangible assets	4,052
Provision for doubtful accounts	1,668
Provision for restructuring and impairments	(364)
Extraordinary gains	--
Amortization of domain assets	--
Amortization of deferred compensation	42
Amortization of debt issuance costs	83
Loss on sale of advertising network	--
Other	13
Impairment of investments	--
Impairment of intangible assets	--
Minority interest	--
Changes in operating assets and liabilities, net of effect of acquisitions and discontinued operations:	
Accounts receivable, net	4,570
Prepaid expenses and other current assets	(975)
Proceeds from sales and maturities of marketable securities	--
Other assets	200
Accounts payable, accrued expenses and other current liabilities	(10,456)
Deferred revenue	(314)
Net cash provided by operating activities	1,085
Cash flows from investing activities:	
Proceeds from sales of businesses	--
Purchases of intangible assets	--
Purchases of property and equipment, including capitalized software	(1,450)
Acquisitions, net of cash paid (acquired)	--

Net cash used in investing activities	(1,450)
Cash flows from financing activities:	
Net proceeds from issuance of Class A common stock	--
Issuance of shares to employee benefit plans	224
Proceeds from issuance of convertible notes, net	--
Payments under capital lease obligations	(337)
Interest payments on restructured notes	(362)
Principal payments of notes payable	(72)
Net cash (used in) provided by financing activities	(547)
Effect of foreign exchange rate changes on cash and cash equivalents	(24)
Net (decrease) increase in cash and cash equivalents	(936)
Cash (used in) provided by discontinued operations	(300)
Cash and cash equivalents at beginning of the period	13,278
Cash and cash equivalents at the end of the period	$12,042

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Supplemental disclosure of non-cash information:

During the six months ended June 30, 2002 and 2001, the Company paid approximately $1.3 million and $5.8 million, respectively, for interest. In addition, we issued 574,637 shares of Class A common stock valued at approximately $1.5 million as payment for interest in lieu of cash during the six months ended June 30, 2002 (see Note 6). Through the issuance of 13,538 shares of Class A common stock, the Company paid approximately $237,000 in interest for the six months ended June 30, 2001.

During the six months ended June 30, 2002, the Company issued shares of Class A common stock as follows:

The Company issued 56,075 shares of Class A common stock valued at approximately $314,000 in connection with the divestiture of a subsidiary of the Company's India.com subsidiary (see Note 7).

The Company issued 36,232 shares of Class A common stock valued at approximately $203,000 in connection with the settlement of an indemnification obligation arising out of the sale of Asia.com's eLong.com business. The indemnification obligation arose out of a contingent payment obligation owed by eLong.com to the sellers of a business purchased by eLong.com (see Note 7).

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

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

The Company issued 7,716 shares of Class A common stock valued at approximately $11,000 in connection with a severance agreement.

The Company issued 106,534 shares of Class A common stock valued at approximately $100,000 in settlement of a vendor obligation.

During the six months ended June 30, 2001, the Company issued shares of Class A common stock as follows:

The Company issued 60,423 shares of Class A common stock valued at approximately $381,000 in settlement of a vendor obligation.

The Company issued 31,746 shares of Class A common stock valued at approximately $200,000 as payment related to the sale of its advertising network.

The Company issued 162,083 shares of Class A common stock valued at approximately $1.3 million as payment for a contingent settlement obligation.

The Company issued 27,500 shares of Class A common stock valued at $189,000 for a settlement obligation associated with the sale of a business.

The Company issued 61,475 shares of Class A common stock valued at approximately $655,000 to certain former employees of Asia.com and India.com as severance payments.

Non-cash investing activities:

During the six months ended June 30, 2001, the Company issued 22,222 shares of its Class A common stock in connection with an investment. These transactions resulted in non-cash investing activities of $285,000 (see Note 3).

During the six months ended June 30, 2001, the Company issued 1,896,218 shares of its Class A common stock in connection with certain acquisitions. These transactions resulted in non-cash investing activities of $30.8 million (see Note 2).

Non-cash financing activities:

During the six months ended June 30, 2002, we issued 100,000 shares of Class A common stock in connection with the March 20, 2001 private placement (See Note 8).

See accompanying notes to unaudited condensed consolidated financial statements.

EasyLink Services Corporation

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Operations and Significant Accounting Policies

(a) Summary of Operations

On April 2, 2001, the Company changed its name to EasyLink Services Corporation. The Company offers a broad range of information exchange services to businesses and service providers, including transaction delivery services such as electronic data interchange or "EDI," telex, desktop fax, broadcast and production messaging services; managed e-mail and groupware hosting services; and services that protect corporate e-mail systems such as virus protection, spam control and content filtering services.

Until March 30, 2001, the Company also offered advertising services and consumer e-mail services to Web sites, ISP's and direct to consumers through its web site www.mail.com. On October 26, 2000, the Company announced its intention to sell its advertising network business and stated that it will focus exclusively on its established outsourced messaging business. The Company also announced that as a result of its decision to focus on its outsourced messaging business, it was streamlining the organization, taking advantage of lower cost areas and further integrating its technological and operational infrastructures. On March 30, 2001, the Company completed the sale of its advertising network and consumer e-mail business to Net2Phone. See Note 4 for additional information.

In March 2000, EasyLink formed WORLD.com to develop the Company's extensive portfolio of domain names into major Web properties, such as Asia.com and India.com, which served the business-to-business and business-to-consumer marketplace. Through its subsidiaries, WORLD.com generated revenues primarily from sales of information technology products, system integration and website development for other companies, advertising related sales and commissions earned from booking travel arrangements. On November 2, 2000, the Company announced that it would sell all assets not related to its core outsourced messaging business, including its Asia.com Inc., and India.com Inc. subsidiaries, and its portfolio of category-defining domain names. On May 3, 2001, Asia.com, Inc. sold its business to an investor group. In October 2001, the Company sold 90% of a subsidiary of India.com, Inc. and the Company has ceased conducting its portal business. Accordingly, the results of World.com and its subsidiaries have been restated as discontinued operations in our consolidated financial statements for all periods presented. See Notes 1(c) and 7 for additional information.

(b) Unaudited Interim Condensed Consolidated Financial Information

The accompanying interim condensed consolidated financial statements as of June 30, 2002 and for the three and six months ended June 30, 2002 and 2001 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 June 30, 2002 and the consolidated results of operations and cash flows for the interim periods ended June 30, 2002 and 2001. 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, 2001 has been derived from audited consolidated financial statements at that date.

For each of the years ended December 31, 2001 and 2000, the Company received a report from its independent accountants containing an explanatory paragraph stating that the Company suffered recurring losses from operations since inception and has a working capital deficiency that raises substantial doubt about the Company's ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Management believes the Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing or refinancing as may be required, and ultimately to achieve profitable operations. Management is continuing the process of further reducing operating costs and increasing its sales efforts. There can be no assurance that the Company will be successful in these efforts.

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, 2001 as included in the Company's Form 10-K/A filed with the Securities and Exchange Commission on April 19, 2002.

(c) Principles of Consolidation and Basis of Presentation

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

WORLD.com, Inc., a wholly owned subsidiary, and its majority-owned subsidiaries have been reflected as discontinued operations and prior year amounts have been reclassified to reflect such treatment (See Note 7).

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

(d) Use of Estimates

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

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

The Company assesses the need to record impairment losses on long-lived assets, including intangible assets, used in operations when indicators of impairment are present. On an on-going basis, management reviews the value and period of amortization or depreciation of long-lived assets, including goodwill and other intangible assets. During this review, the Company reevaluates the significant assumptions used in determining the original cost of long-lived assets. Although the assumptions may vary from transaction to transaction, they generally include revenue growth, operating results, cash flows and other indicators of value. Management then determines whether there has been a permanent impairment of the value of long-lived assets based upon events or circumstances, which have occurred since acquisition. The impairment policy is consistently applied in evaluating impairment for each of the Company's wholly owned subsidiaries and investments. It is reasonably possible that the impairment factors evaluated by management will change in subsequent periods, given that the Company operates in a volatile business environment. This could result in material impairment charges in the future.

(f) Revenue Recognition

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

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

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

Prior to the sale of the Advertising Network Business on March 30, 2001 (see Note 4), advertising revenues were derived principally from the sale of banner advertisements. Revenue on banner advertisements was recognized ratably as the advertisements or respective impressions were delivered either on a "cost per thousand" or "cost per action" basis. Revenue on upfront placement fees and promotions was deferred and recognized over the term of the corresponding agreement.

The Company also traded advertisements on its Web properties in exchange for advertisements on the Internet sites of other companies as part of the ad network business. Barter revenues and expenses were recorded at the fair market value of services provided or received; whichever is more determinable in the circumstances. Revenue from barter transactions were recognized as income when advertisements were delivered on the Company's Web properties. Barter expense was recognized when the Company's advertisements are run on other companies' Web sites, which is typically in the same period when barter revenue was recognized. If the advertising impressions were received from the customer prior to the Company delivering the agreed-upon advertising impressions, a liability was recorded, and if the Company delivered the advertising impressions to the other companies' Web sites prior to receiving the agreed-upon advertising impressions, a prepaid expense was recorded. At June 30, 2002 and December 31, 2001, the Company had no liability for barter advertising to be delivered. Barter revenues, which are a component of advertising revenue, amounted to $0 and $0.6 million for the six months ended June 30, 2002 and 2001, respectively. For the six months ended June 30, 2002 and 2001, barter expenses, which is a component of cost of revenues, were approximately $0 and $0.6 million, respectively.

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

Other revenues includes revenues from the licensing and sale of domain names, which are recognized ratably during the licensing period or at the time when the ownership of the domain name is transferred provided that no significant Company obligation remains and collection of the resulting receivable is probable. To date, such revenues have not been material.

(g) Financial Instruments and Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash, cash equivalents, restricted investments, marketable securities, accounts receivable, notes payable and convertible notes payable. At June 30, 2002 and December 31, 2001, the fair value of cash, cash equivalents, restricted investments, marketable securities 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 $24.1 million, which has an estimated fair value of $6.1 million and $6.6 million at June 30, 2002 and December 31, 2001, respectively, based upon quoted market prices (See Note 6).

Credit is extended to customers based on the evaluation of their financial condition and collateral is not required. The Company performs ongoing credit assessments of its customers and maintains an allowance for doubtful accounts. No single customer exceeded 10% of either total revenues or accounts receivable as of and for the six months ended June 30, 2002 or 2001. Revenues from the Company's five largest customers accounted for an aggregate of 6% of the Company's total revenues for the three months ended June 30, 2002 and 2001.

(h) Basic and Diluted Net Loss Per Share

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 loss per share is equal to basic loss per share since all common stock equivalents are anti-dilutive for each of the periods presented. Diluted net loss per share for the periods ended June 30, 2002 and 2001 does not include shares issuable upon exercise of employee stock options and warrants and upon conversion of convertible notes.

(i) Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of

Financial Accounting Standards No. 141, "Business Combinations" ("Statement 141"), and Statement No. 142, "Goodwill and Other Intangible Assets" ("Statement 142"). Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Financial Accounting Standards Board No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("Statement 121").

The Company adopted the provisions of Statement 141 immediately and Statement 142 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 were amortized prior to the adoption of Statement 142.

Statement 141 requires, upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company is required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company is required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, Statement 142 requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company has up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of it assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which will be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of earnings.

As of January 1, 2002, the date of adoption, the Company had unamortized goodwill in the amount of $69.1 million, which is subject to the transition provisions of Statement 142. Amortization expense related to goodwill of continuing operations was $52.1 million for the year ended December 31, 2001. During the quarter ended June 30,2002, the Company completed its assessment with the assistance of an independent appraiser in accordance with Statement 142 and determined that there was no impairment as of January 1, 2002.

The following unaudited pro forma disclosure presents the adoption of Statement 142 as if it had occurred at the beginning of all periods presented:

(In thousands, except per share amounts)	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Loss from continuing operations	$(1,279)	$(48,225)
Add back: Goodwill amortization	--	10,612
Adjusted loss from continuing operations	(1,279)	(37,613)
Loss from discontinued operations	--	(11,960)
Add back: Goodwill amortization	--	328
Adjusted loss from discontinued operations	--	(11,632)
Extraordinary gains	--	1,079
Adjusted net loss	$(1,279)	$(48,166)
Basic and diluted net loss per common share:		
Loss from continuing operations	$(0.08)	$(5.48)
Goodwill amortization from continuing operations	--	1.21
Adjusted loss from continuing operations	(0.08)	(4.27)
Loss from discontinued operations	--	(1.36)
Goodwill amortization from discontinued operations	--	0.04
Adjusted loss from discontinued operations	--	(1.32)
Extraordinary gains	--	0.12
Adjusted net loss	$(0.08)	$(5.47)
Weighted average basic and diluted shares outstanding	16,541	8,793

In connection with the adoption of Statement 142 on January 1, 2002, the Company reclassified $3.6 million in net book value associated with assembled workforce to goodwill. In addition, during the first quarter of 2002, goodwill was reduced by $0.3 million as a result of a final reconciliation related to the STI acquisition (See Note 2).

Included in the Company's balance sheet as of June 30, 2002 are the following (in thousands):

	Gross Cost	Accumul Amortiza
Goodwill...	$152,659	$(83,8
Intangibles with finite lives:		
Technology...	16,550	(7,3
Trademark..	16,000	(2,1
Customer lists...	11,000	(1,4
Software development and licenses........................	4,580	(2,4
	$ 48,130	$(13,3

Amortization related to intangible assets with finite lives was $2.0 million and $2.1 million for the three months ended June 30, 2002 and 2001, respectively. In accordance with Statement 142, the Company reassessed the useful lives of all other intangible assets. There were no changes to such lives and there are no expected residual values associated with these intangible assets. Trademarks and customer lists are being amortized on a straight-line basis over ten years. Technology and software development and licenses are being amortized on a straight-line basis over their estimated useful lives from two to five years.

In June 2001, Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("Statement 143") was issued. Statement 143 addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated retirement costs that result from the acquisition, construction, or development and normal operation of a long-lived asset. Upon initial recognition of a liability for an asset retirement obligation, Statement 143 requires an increase in the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated to expense using a systematic and rational method over the asset's useful life. Statement 143 is effective for fiscal years beginning after June 15, 2002. The adoption of this statement is not expected to have a material impact on the Company's financial position or results of operations.

In August 2001, Statement of Financial Accounting Standards 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("Statement 144"), which supersedes both Statement 121, and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("Opinion 30"), for the disposal of a segment of a business (as previously defined in that Opinion). Statement 144 retains the fundamental provisions in Statement 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with Statement 121. For example, Statement 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. Statement 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike Statement 121, an impairment assessment under Statement 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under Statement 142, Goodwill and

Other Intangible Assets.

The Company adopted Statement 144 effective January 1, 2002. The adoption of Statement 144 for long-lived assets held for use did not have an impact on the Company's financial position and results of operations because the impairment assessment under Statement 144 is largely unchanged from Statement 121 and the provisions of the Statement for assets held for sale or other disposals generally are required to be applied prospectively after the adoption date to newly initiated disposal activities.

In April 2002, Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("Statement 145") was issued. FASB Statement No. 4 required all gains and losses from the extinguishment of debt to be reported as extraordinary items and Statement No. 64 related to the same matter. Statement 145 requires gains and losses from certain debt extinguishment to not be reported as extraordinary items when the use of debt extinguishment is part of the risk management strategy. Statement 44 was issued to establish transitional requirements for motor carriers relative to intangible assets. Those transitions are completed, therefore Statement 44 is no longer necessary. Statement 145 also amends Statement No. 13 requiring sale-leaseback accounting for certain lease modifications. Statement 145 is effective for fiscal years beginning after May 15, 2002. The provisions relating to sale-leaseback are effective for transactions after May 15, 2002. The adoption of Statement 145 is not expected to have a material impact on the Company's financial position or results of operations.

In July 2002, Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("Statement 146") was issued. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue ("EITF") 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principle difference between Statement 146 and EITF 94-3 relates to the timing of liability recognition. Under Statement 146, a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. The provisions of Statement 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this statement is not expected to have a material impact on the Company's financial position or results of operations.

(2) Acquisitions

GN Comtext

During July 2001, the Company acquired the assets of GN Comtext ("GN") for $1. Additionally, the Company received a $1.1 million unsecured interest free loan from the former parent company of GN, GN Store Nord A/S, which was paid in the fourth quarter of 2001, and received approximately $175,000 for transition services which were recorded as a reimbursement of costs during the third quarter of 2001 and will collect and retain a percentage of certain accounts receivable collected on behalf of GN. GN offers value-added messaging services to over 3,000 customers ranging from small business to multi-national companies around the world. The excess of fair market value of the assets acquired and the liabilities assumed over the purchase price resulted in negative goodwill of $782,000 which was recognized as an extraordinary gain during the quarter ended September 30, 2001 in accordance with FASB Statement No. 141.

Swift Telecommunications, Inc. And Easylink Services

On January 31, 2001, the Company and Swift Telecommunications, Inc. ("STI"), a New York Corporation, entered into an Agreement and Plan of Merger ("Merger Agreement"). On February 23, 2001, the Company completed the acquisition of STI. On January 31, 2001, and concurrent with the execution and delivery of the Merger Agreement, STI acquired from AT&T Corp. its EasyLink Services business ("EasyLink Services"). On April 2, 2001, Mail.com changed its name to EasyLink Services Corporation (formerly Mail.com, Inc., the "Company" or "EasyLink").

STI together with its newly acquired EasyLink Services business is a global provider of transaction delivery services such as electronic data interchange, e-mail, fax and telex.

At the closing of the acquisition by STI of the EasyLink Services business from AT&T, the Company advanced $14 million to STI in the form of a loan, the proceeds of which were used to fund part of the $15 million cash portion of the purchase price to AT&T. Upon the closing of the acquisition of STI, the Company assumed a $35 million note issued by STI to AT&T. The $35 million note was secured by the assets of STI, including the EasyLink Services business, and the shares of EasyLink Class A common stock issued to the sole shareholder in the merger. The AT&T note was payable in equal monthly installments over four years, bearing interest at the rate of 10% per annum for the first six months of the note. Thereafter the rate was to be adjusted every six months equal to 1% plus the prime rate as listed in the Wall Street Journal on such date of adjustment. AT&T subsequently entered into an agreement with the Company to restructure the note. On November 27, 2001, the note was converted into a package of securities consisting of a promissory note in the principal amount of $10 million, 1 million shares of Class A common stock and warrants to purchase 1 million shares of Class A common stock. The warrants have an exercise price equal to $6.10 per share, subject to adjustment. See Note 6 Notes Payable for a description of the restructuring, the promissory note and the warrants.

Upon the closing of the acquisition of STI, the Company paid to the sole shareholder of STI $835,000 in cash and issued an unsecured note for $9,188,000 and 1,876,618 shares of EasyLink Class A common stock, valued at $30.8 million, as consideration for the acquisition of STI. The value of the common stock issued to STI is based on the average market price of EasyLink's common stock, as quoted on the Nasdaq national market, for the two days immediately prior to, the day of, and the two days immediately after the announcement of the transaction on February 8, 2001. The $9,188,000 note was payable in four equal semi-annual installments over two years and may be prepaid in whole or in part at any time and from time to time without payment of premium or penalty. The note was non-interest bearing unless the Company fails to make a required payment within 30 days after the due date therefor. Thereafter, the note would bear interest at the rate of 1% per month. The note also contained certain customary covenants and events of default. The holder of the note subsequently entered into an agreement with the Company to restructure the note. On November 27, 2001, the note was converted into a package of securities consisting of a senior convertible note in the principal amount of approximately $2.68 million, approximately 268,000 shares of Class A common stock and warrants to purchase approximately 268,000 shares of Class A common stock. The senior convertible note has an initial conversion price equal to $10.00 per share, subject to adjustment. The warrants have an exercise price equal to the average of the closing prices of the Company's Class A common stock over the 30 trading days ending two days before the closing of the restructuring of $6.10 per share, subject to adjustment. See Note 6 Notes Payable for a description of the restructuring, the senior convertible note and the warrants.

The cash portion of the merger consideration and the reimbursement of payments made by the sole shareholder of STI were funded out of EasyLink's available cash and from the proceeds received by the Company on January 8, 2001 from the issuance of $10.3 million of 10% Senior Convertible Notes due January 8, 2006.

The Company allocated a portion of the purchase price to the fair market value of the acquired assets and liabilities assumed of STI and the EasyLink Services business. The excess of the purchase price over the fair market value of the acquired assets and liabilities assumed of STI and the EasyLink Services business has been allocated to goodwill ($24 million), assembled workforce ($3 million), technology ($11 million), trademarks ($16 million) and customer lists ($11 million). During 2001, prior to the adoption of Statement 142, goodwill, trademarks and customer lists were being amortized over a period of 10 years, the expected estimated period of benefit, and assembled workforce and technology were being amortized over 5 years, the estimated period of benefit. The purchase price that was allocated was based upon the final outcome of the valuation and appraisals of the fair value of the acquired assets and assumed liabilities at the date of acquisition, as well as the identification and valuation of certain intangible assets such as customer lists, in-place workforce, technology and trademarks, etc. The fair value of the technology, assembled workforce, trademarks, customer lists and goodwill was determined by management using the excess earnings method, a risk-adjusted cost approach and the residual method, respectively. During the first quarter of 2002, goodwill was reduced by $0.3 million as a result of a final reconciliation related to the acquisition.

Additionally, upon the closing of the STI acquisition, the President and sole shareholder of STI entered into an employment agreement with the Company and became President of International Operations as well as a member of the Company's Board of Directors.

The consideration paid by EasyLink was determined as a result of negotiations between EasyLink and STI.

During January 2001, STI purchased the real time fax business from Xpedite Systems, Inc. located in Singapore and Malaysia (these two subsidiaries conduct business under the name "Xtreme") for approximately $500,000 in cash.

In connection with the acquisition of STI, the Company entered into a conditional commitment to acquire Telecom International, Inc. ("TII"), which immediately prior to the acquisition of STI was an affiliate of the sole shareholder of STI. The purchase price for TII was originally negotiated at $117,646 in cash, a promissory note in the aggregate principal amount of approximately $1,294,000 and 267,059 shares of the Company's Class A common stock. In order to facilitate the Company's proposed debt restructuring and to reduce the Company's debt obligations and cash commitments, the former sole shareholder of STI and the Company agreed to modify the Company's commitments in respect of TII. In lieu of acquiring TII, the Company purchased certain assets owned by TII and assumed certain liabilities. As consideration, the Company issued 300,000 shares of Class A common stock valued at $1.9 million as the sole purchase price. As a result of this transaction, the Company recorded an extraordinary loss on the extinguishment of this commitment of $2.4 million during the fourth quarter of 2001.

As part of the transaction with STI, we also entered into a conditional commitment to acquire the 25% minority interests in two STI subsidiaries for $47,059 in cash, promissory notes in the aggregate principal amount of approximately $517,647 and 106,826 shares of Class A Common Stock. This transaction is subject to certain conditions, including satisfactory completion of due diligence, receipt of regulatory approvals and other customary conditions.

The following unaudited pro-forma consolidated amounts give effect to the 2001 acquisitions as if they had occurred on January 1, 2001, by consolidating their results of operations with the results of the Company for the three and six months ended June 30, 2001. The unaudited pro-forma consolidated results are not necessarily indicative of the operating results that would have been achieved had the transactions been in effect as of the beginning of the periods presented and should not be construed as being representative of future operating results. The pro forma basic and diluted net loss per common share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding. Diluted net loss per share equals basic net loss per share, as common stock equivalents are anti-dilutive for all pro forma periods presented.

In thousands, except per share amounts)	Three Months Ended June 30, 2001	Six Month June 30
Revenues	$ 38,913	$ 80,
Loss from continuing operations	$(48,152)	$ (106,
Loss from discontinued operations	$(11,960)	$ (66,
Extraordinary gains	$ 1,079	$ 40,
Net loss	$(59,033)	$ (131,
Basic and diluted net loss per common share:		
Loss from continuing operations	$ (5.48)	$ (12
Loss from discontinued operations	(1.36)	(7
Extraordinary gains	0.12	4
Net loss	$ (6.72)	$ (15
Weighted average shares used in net loss per common share calculation (1)	8,779	8,

(1) The Company computes net loss per share in accordance with provisions of SFAS No. 128, "Earnings per Share." Basic net loss per share is computed by dividing the net loss for the period by the weighted-average number of common shares outstanding during the period. The calculation of the weighted average number of shares outstanding assumes that 1,896,218 shares of EasyLink's common stock issued in connection with its acquisitions were outstanding for the entire period or date of inception, if later. The weighted average common shares used to compute pro forma basic net loss per share includes the actual weighted average common shares outstanding for the periods presented, respectively, plus the common shares issued in connection with the 2001 acquisitions from January 1, 2001 or date of inception if later. Diluted net loss per share is equal to basic net loss per share as common stock issuable upon exercise of the Company's employee stock options and upon exercise of outstanding warrants are not included because they are antidilutive. In future periods, the weighted-average shares used to compute diluted earnings per share will include the incremental shares of common stock relating to outstanding options and warrants to the extent such incremental shares are dilutive.

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(3) Other Acquisition Related Events

TCOM

On October 18, 1999, the Company acquired TCOM, Inc. ("TCOM"), a software technology development firm, specializing in the design of carrier class applications for the telecommunications and computer telephony industries. The Company was not continuing the business operations of TCOM but made the acquisition in order to obtain technology and development resources. The acquisition had been accounted for an acquisition of assets. The Company paid $2 million in cash and issued 43,983 shares of Class A common stock valued at approximately $6.1 million. In addition, the Company paid to the former employees of TCOM bonuses totaling $400,000, payable in six-month installments after the closing date in the amounts of $74,000, $88,000, $116,000 and $122,000, provided such employees continue their employment through the applicable payment dates. As of December 31, 2001, the amount was fully repaid. The excess of the purchase price over the net book value of the assets acquired and assumed liabilities of TCOM of approximately $8.1 million has been allocated to other intangible assets. Such amounts will be ratably amortized over a period of three years, the expected period of benefit.

The Company was obligated to pay additional consideration to the sellers of TCOM based upon the achievement of certain objectives over an 18-month period. The additional consideration was to consist of up to $1.0 million payable in cash and up to $2.75 million payable in shares of Class A common stock based on the market value of such stock at the time of payment, although the market value would be deemed to be not less than $40.00 per share. On November 1, 2000, the Company settled its contingent consideration obligation with TCOM. The Company agreed to pay the former shareholders of TCOM a total of $3.75 million, comprised of a cash payment of $1 million and $2.75 million in Class A common stock, on April 18, 2001, determined based on the market price at that time, but not less than $40.00 per share. The Company adjusted the purchase price for the $1 million payment and is amortizing such costs over the remaining life of the other intangible assets.

During the first quarter of 2001, management determined that a portion of the carrying value of the other intangible assets associated with TCOM had become impaired due to the restructuring of the workforce that had generated those intangible assets upon acquisition in October 1999. As a result, an impairment charge of $4.3 million was recorded as part of the restructuring charge.

(4) Sale of Advertising Network

On March 30, 2001, the Company sold its advertising network to Net2Phone, Inc. Net2Phone paid the Company $3 million in cash upon the closing. The Company received an additional $500,000 in April 2001 based upon the achievement of certain milestones by the Company. The consideration paid to EasyLink was determined as a result of negotiations between Net2Phone, Inc. and EasyLink. In connection with the sale, the parties entered into a hosting agreement whereby the Company would receive payments for hosting the consumer mailboxes for a minimum of one year. As a result of the sale, the Company transferred net assets, including certain domain names and partner agreements, and liabilities related to the advertising network to Net2Phone, and recorded a loss on the sale of the advertising network of $2.3 million. The loss was subsequently adjusted to $1.8 million during the fourth quarter of 2001.

During the second quarter of 2001, the Company completed the migration of the hosting of these consumer mailboxes to a third party provider who is paid for this service. The hosting agreement was terminated as of September 30, 2001.

(5) Investments

The Company assesses the need to record impairment losses on investments and records such losses when the impairment of an investment is determined to be other-than-temporary.

On July 25, 2000, EasyLink entered into a strategic relationship with BulletN.net, Inc. The investment has been accounted for under the cost method of accounting, as EasyLink owns less than 20% of the outstanding stock of BulletN.net. As part of this agreement BulletN.net issued 666,667 shares of its common stock and a warrant to purchase up to 666,667 shares of BulletN.net common stock at $3.75 per share to EasyLink in exchange for 36,443 shares of EasyLink Class A common stock valued at approximately $3.1 million. The Company concluded that the carrying value of this cost-based investment was permanently impaired based on the achievement of business plan objectives and milestones and the fair value of the investment relative to its carrying value. During the first quarter of 2001, the Company recorded an impairment charge of $2.6 million due to an other-than-temporary decline in the value of this investment. This amount is included in impairment of investments within other income (expense) in the 2001 statement of operations. On March 1, 2001, in consideration of the exchange and cancellation of the 666,667 warrants and the waiver of certain anti-dilution rights, the Company received a new warrant to purchase 266,667 shares of BulletN.net common stock at $1 per share. As of June 30, 2002, the carrying value of this investment was $0.5 million.

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During 1999, the Company acquired an equity interest in 3Cube, Inc. ("3Cube"), which was accounted for under the cost method. Under the agreement, the Company paid $1.0 million in cash and issued 8,008 of its Class A common stock, valued at approximately $2.0 million, in exchange for 307,444 shares of 3Cube convertible preferred stock which represents an equity interest of less than 20% of 3Cube. On June 30, 2000, the Company made an additional investment in 3Cube, Inc. by issuing 25,505 shares of Class A common stock valued at approximately $1.5 million in exchange for 50,411 shares of 3Cube Series C Preferred Stock. At December 31, 2000, EasyLink owned preferred stock of 3Cube, representing an ownership interest of 21% of the combined common and preferred stock outstanding of 3Cube, Inc. Accordingly, the Company accounted for this investment under the equity method of accounting. The change from the cost method to the equity method of accounting resulted in a decrease of the carrying value of the investment by $2.1 million in 2000. In addition, as a result of sequential declines in operating results of 3Cube, management made an assessment of the carrying value of its equity investment and determined that it was in excess of its estimated fair value. Accordingly, in December 2000, EasyLink wrote down the value of its investment in 3Cube by $200,000 as it determined that the decline in its value was other-than-temporary. During the first quarter of 2001, the Company further reduced its investment in 3Cube by $59,000 to $2 million, representing the value the Company received in August 2001 upon the liquidation of its investment.

On April 17, 2000, in exchange for $500,000 in cash, the Company acquired certain source code technologies, trademarks and related contracts relating to the InTandem collaboration product ("InTandem") from IntraACTIVE, Inc., a Delaware corporation (now named Bantu, Inc., "Bantu"). On the same date, the Company also paid Bantu an upfront fee of $500,000 for further development and support of the InTandem product. On the same date, pursuant to a Common Stock Purchase Agreement, the Company acquired shares of common stock of Bantu representing approximately 4.6% of Bantu's outstanding capital stock in exchange for $1 million in cash and 46,296 shares of its Class A common stock, valued at approximately $3.6 million. Pursuant to the Common Stock Purchase Agreement, the Company also agreed to invest up to an additional $8 million in the form of shares of its Class A Common stock in Bantu in three separate increments of $4 million, $2 million and $2 million, respectively, based upon the achievement of certain milestones in exchange for additional shares of Bantu common stock representing 3.7%, 1.85% and 1.85%, respectively, of the outstanding common stock of Bantu as of April 17, 2000. The number of shares of the Company's Class A common stock issuable at each closing will be based on the greater of $90 per share and the average of the closing prices of the Company's Class A common stock over the five trading days prior to such closing date. In July 2000, the

Company issued an additional 9,259 shares of its Class A common stock valued at approximately $590,000 to Bantu in accordance with a true-up provision in the Common Stock Purchase Agreement. In September 2000, the Company issued an additional 44,444 shares of its Class A common stock valued at approximately $2.9 million as payment for the achievement of a milestone indicated above. In January 2001, the Company issued an additional 22,222 shares of its Class A common stock valued at approximately $285,000 as payment for the achieved milestone indicated above. The Company accounts for this investment under the cost method. During the second quarter of 2001, management made an assessment of the carrying value of its investment, based upon an incremental investment made by a third party, and determined that the carrying value of this cost-based investment was permanently impaired as it was in excess of its estimated fair value. Accordingly, EasyLink wrote down the value of its investment in Bantu by $7.3 million as it determined that the decline in its value was other-than-temporary. As of June 30, 2002, the carrying value of this investment was $1.0 million.

On July 25, 2000, the Company issued 10,222 shares of its Class A common stock valued at approximately $872,000 as an investment in Madison Avenue Technology Group, Inc. (CheetahMail). The investment has been accounted for under the cost method of accounting as the Company owns less than 20% of the outstanding stock of CheetahMail. In consideration thereof, the Company received 750,000 shares of Series B convertible preferred stock and a warrant to purchase 75,000 shares of common stock of CheetahMail. The Company transferred these shares of preferred stock and warrants to Net2Phone pursuant to the sale of the Company's Advertising Network.

(6) Notes Payable

7% Convertible Subordinated Notes

On January 26, 2000, the Company issued $100 million of 7% Convertible Subordinated Notes ("the Notes"). Interest on the Notes is payable on February 1 and August 1 of each year, beginning on August 1, 2000. The Notes are convertible by holders into shares of EasyLink Class A common stock at a conversion price of $189.50 per share (subject to adjustment in certain events) beginning 90 days following the issuance of the Notes.

The notes will mature on February 1, 2005. Prior to February 5, 2003 the Notes may be redeemed at the Company's option ("the Provisional Redemption"), in whole or in part, at any time or from time to time, at certain redemption prices, plus accrued and unpaid interest to the date of redemption if the closing price of the Class A common stock shall have equaled or exceeded specified percentages of the conversion price then in effect for at least 20 out of 30 consecutive days on which the NASDAQ national market is open for the transaction of business prior to the date of mailing the notice of Provisional Redemption. Upon any Provisional Redemption, the Company will be obligated to make an additional payment in an amount equal to the present value of the aggregate value of the interest payments that would thereafter have been payable on the notes from the Provisional Redemption Date to, but not including, February 5, 2003. The present value will be calculated using the bond equivalent yield on U.S. Treasury notes or bills having a term nearest the length to that of the additional period as of the day immediately preceding the date on which a notice of Provisional Redemption is mailed.

On or after February 5, 2003, the Notes may be redeemed at the Company's option, in whole or in part, in cash at the specified redemption prices, plus accrued interest to the date of redemption.

In connection with the issuance of these Notes, the Company incurred approximately $3.8 million of debt issuance costs. Such costs have been capitalized and are being amortized ratably over the original term of the Notes. As a result of the exchange note agreements entered into in 2001 and discussed below, the Company recorded a charge of $2.2 million to reduce debt issuance costs relating to that portion of the notes that were exchanged. This charge has been netted against the extraordinary gain on exchange of convertible notes, included in the 2001 statements of operations.

Senior Convertible Notes issued in Exchange for 7% Convertible Subordinated Notes

On February 1, 2001, the Company entered into a note exchange agreement (the "Note Exchange Agreement"). Under the terms of the agreement, EasyLink issued $11,694,000 principal amount of a new series of 10% Senior Convertible Notes due January 8, 2006 in exchange for the cancellation of $38,980,000 principal amount of its 7% Convertible Subordinated Notes due February 1, 2005.

On February 8, 2001, the Company entered into an additional note exchange agreement. Under the terms of the agreement, EasyLink issued $4,665,000 principal amount of a new series of 10% Senior Convertible Notes due January 8, 2006 in exchange for the cancellation of $15,550,000 principal amount of its 7% Convertible Subordinated Notes due February 1, 2005.

On February 14, 2001, the Company entered into an additional note exchange agreement. Under the terms of the agreement, EasyLink issued $7,481,250 principal amount of a new series of 10% Senior Convertible Notes due January 8, 2006 in exchange for the cancellation of $21,375,000 principal amount of its 7% Convertible Subordinated Notes due February 1, 2005 (the "Subordinated Notes"). Pursuant to this note exchange agreement, on or about May 23, 2001, $2,531,250 in principal amount of these Senior Convertible Notes were exchanged for 142,071 shares of Class A common stock (the "Exchange Shares") leaving $4,950,000 in principal amount of this series of Senior Convertible Notes outstanding.

The Senior Convertible Notes issuable under the February 1, February 8 and February 14 note exchange agreements (the "Exchange Notes") are unsecured, joint and several obligations of EasyLink and its subsidiary EasyLink Services USA, Inc. (collectively, the "Companies").

The Exchange Notes bear interest semi-annually at the rate of 10% per annum. One half of each interest payment is payable in cash and one half is payable in shares of EasyLink Class A common stock, par value $.01 per share ("Class A common stock"), until 18 months after the closing date of the financing. Thereafter, one half of each interest payment may be paid in shares of Class A common stock at the option of the Companies. For purposes of determining the number of shares issuable upon payment of interest in shares of Class A common stock, such shares will be deemed to have a value equal to the applicable conversion price at the time of payment.

$11,694,000 of the Exchange Notes is convertible at any time at the option of the holder into Class A common stock at an initial conversion price equal to $13.00 per share. The conversion price is subject to anti-dilution adjustments.

$4,665,000 of the Exchange Notes is convertible at any time at the option of the holder into Class A common stock at an initial conversion price equal to $17.50 per share. The conversion price is subject to anti-dilution adjustments.

$7,481,250 of the Exchange Notes is convertible at any time at the option of the holder into Class A common stock at an initial conversion price equal to $15.00 per share. Also, $2,531,250 of the Exchange Notes was cancelled in exchange for the issuance of Exchange Shares as described above. The conversion price is subject to anti-dilution adjustments.

The Companies may, at their option, prepay the Exchange Notes, in whole or in part, at any time (i) on or after the third anniversary of the closing date of the financing, (ii) if the closing price of the Class A common stock on the NASDAQ stock market, or other securities market on which the Class A common stock is then traded, is at or above $50.00 per share (such amount to be appropriately adjusted in the event of a stock split, stock dividend, stock combination or recapitalization or similar event having a similar effect) for 30 consecutive trading days or (iii) EasyLink desires to effect a merger, consolidation or sale of all or substantially all of its assets in a manner that is prohibited by the Note Purchase Agreement between EasyLink and the initial purchasers of the Exchange Notes (the "Note Purchase Agreement") and the holders of the Exchange Notes fail to consent to a waiver of such prohibition to permit such merger, consolidation or sale.

All of the above exchange transactions (other than the exchange of $2,531,250 of the Senior Convertible Notes described above, which closed on or about May 23, 2001) under the Exchange Note Agreements closed on March 28, 2001.

The above exchange transactions have been accounted for in accordance with Financial Accounting Standards Board Statement No. 15 ("FASB No.15"), "Accounting by Debtors and Creditors for Troubled Debt Restructurings." As a result of these exchanges, the Company recorded a $40.4 million extraordinary gain on the exchange of convertible notes during the six months ended June 30, 2001.

Because the total future cash payments specified by the new terms of the Exchange Notes, including both payments designated as interest and those designated as face amount, are less than the carrying amount of the Notes, the Company was required to reduce the carrying amount of the Notes, to an amount equal to the total future cash payments specified by the new terms and recognized a gain on exchange of payables equal to the amount of the reduction, less the applicable deferred financing costs associated with the original $100 million 7% Convertible Subordinated Notes of $2.2 million and new financing costs of $40,000.

In future periods, all payments under the terms of the Exchange Notes shall be accounted for as reductions of the carrying amount of the Exchange Notes, and no interest expense shall be recognized on the Exchange Notes for any period between the exchange dates and maturity dates of the Exchange Notes.

Other Senior Convertible Notes

On January 8, 2001, the Company issued $10 million (subsequently increased to $10.26 million) of 10% Senior Convertible Notes due January 8, 2006 to an investor group. On March 19, 2001, the Company completed the issuance of $3.9 million principal amount of 10% Senior Convertible Notes due January 8, 2006 (together with the notes issued pursuant to the January 8, 2001 agreement, (the "Notes") to certain private investors. The Notes are unsecured, joint and several obligations of EasyLink and its subsidiary EasyLink Services USA, Inc. (collectively, the "Companies").

The Notes bear interest, payable semi-annually, at the rate of 10% per annum. One half of each interest payment is payable in cash and one half is payable in shares of EasyLink Class A common stock ("Class A common stock"), until 18 months after the closing date of the financing. Thereafter, one half of each interest payment may be paid in shares of Class A common stock at the option of the Companies. For purposes of determining the number of shares issuable upon payment of interest in shares of Class A common stock, such shares will be deemed to have a value equal to the applicable conversion price at the time of payment.

The Companies may, at their option, prepay the Notes, in whole or in part, at any time (i) on or after the third anniversary of the closing date of the financing, (ii) if the closing price of the Class A common stock on the NASDAQ stock market, or other securities market on which the Class A common stock is then traded, is at or above $50.00 per share (such amount to be appropriately adjusted in the event of a stock split, stock dividend, stock combination or recapitalization or similar event having a similar effect) for 30 consecutive trading days or (iii) EasyLink desires to effect a merger, consolidation or sale of all or substantially all of its assets in a manner that is prohibited by the Note Purchase Agreement dated as of March 13, 2001 between EasyLink and the initial purchasers of the Notes and the holders of the Notes fail to consent to a waiver of such prohibition to permit such merger, consolidation or sale.

Each of the Notes is convertible at any time at the option of the holder into Class A common stock at an initial conversion price equal to $10.00 per share. The conversion price is subject to anti-dilution adjustments.

The $10.26 million principal amount of Notes issued pursuant to the January 8, 2001 agreement are secured by a pledge of the Company's and its wholly-owned subsidiary WORLD.com, Inc.'s share interest in its majority owned subsidiary India.com, Inc. The security interest will be released, among other circumstances, (i) upon repayment of the Notes and accrued interest thereon, (ii) upon a sale, transfer or other disposition of the shares as permitted under the Note Purchase Agreement and the prepayment of Notes as become subject to prepayment in accordance with the Note Purchase Agreement, or (iii) if EasyLink raises at least $35 million in cash proceeds from the sale of assets (including the pledged shares) or from the issuance of certain additional debt or equity financings on or before April 30, 2001.

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The net proceeds of the issuance of the $10.26 million principal amount of Notes issued pursuant to the January 8, 2001 agreement were used to fund a portion of the purchase price payable by Swift Telecommunications, Inc. for the acquisition of the AT&T EasyLink Services business and for working capital and other general corporate purposes.

In connection with the issuance of the Notes, the Company granted to the investor group the right to designate one director to the Board of Directors for so long as the investor group and certain other parties associated with it own a specified number of shares of Class A common stock on a fully diluted basis (the "Designation Agreement"). Pursuant to the Designation Agreement, the Board of Directors appointed a director to the Board of EasyLink effective upon the closing of the financing.

During the second quarter of 2001, the Company issued an aggregate of $550,000 principal amount of 10% Senior Convertible Notes Due January 8, 2006 to certain vendors in exchange for settlement of its obligations to those vendors. Terms of the notes are similar to those notes that were issued on January 8, 2001.

Notes issued in STI/EasyLink Acquisition

In connection with the acquisition of STI, the Company assumed a $35 million note from STI and issued a $9.2 million unsecured note to the former shareholder of STI as partial payment (see Note 2 for additional information). These notes were subsequently restructured (see Restructuring of Certain Debt and Lease Obligations below).

Zones, Inc. Promissory Note

On July 13, 2001, EasyLink entered into an agreement with Zones, Inc. (formerly Multiple Zones, Inc.) regarding payment of a $1 million promissory note. Pursuant to the agreement, EasyLink paid Zones $200,000 in cash on July 16, 2001. Additionally, Zones agreed to convert $400,000 of the original promissory note into a number of shares of EasyLink Class A common stock based upon the average sales price of the Class A Common Stock over the ten (10) trading days immediately preceding the earlier of (a) the filing of a registration statement for the resale of the shares, and (b) the date on which EasyLink enables Multiple Zones to resell the shares or receive the economic benefit of such resale, but in any event not more than 125,000 shares. EasyLink also undertook to file an S-3 registration statement with the United States Securities and Exchange Commission ("SEC"), or such other registration statement as necessary to register the Settlement Shares with the SEC to permit public resale of those shares by Multiple Zones as soon as practicable after execution of the Settlement Agreement, but in no event later than September 30, 2001. EasyLink also agreed to pay to Multiple Zones an additional $430,000 upon the earlier of (i) the closing of the sale of Multiple Zones Mauritius, Ltd. or Multiple Zones Pvt., Ltd. or their respective successors; or (ii) October 31, 2001.

Under an Amended and Restated Settlement Agreement and Release between the Company and Zones, Inc. dated October 8, 2001, the Company and Zones amended their original July 13, 2001 settlement agreement. Under the October 8, 2001 agreement, the Company paid Zones the remaining $430,000 cash payment owed to Zones, and the parties also fixed the number of shares of Class A common stock issuable by the Company to Zones at 103,359. The shares were issued in the fourth quarter of 2001.

GN Store Nord A/S

During July 2001, the Company received a $1.1 million loan from the parent of GN Comtext, GN Store Nord A/S, in connection with assets acquired. During the quarter ended September 30, 2001, receivables due from GN Comtext of approximately $200,000 were netted against the principal amounts due to them. The loan was paid December 2001.

Restructuring of Certain Debt and Lease Obligations

During the third quarter of 2001, pending the completion of the subsequent restructuring, the Company issued $16.3 million of interim notes, bearing interest at a rate of 12% per annum, in exchange for present and future lease obligations in the amount of $15.1 million. These notes were cancelled upon completion of the fourth quarter debt restructuring. This interim transaction resulted in an extraordinary loss of $1.1 million in accordance with FASB No. 15.

On November 27, 2001, the Company completed the restructuring of approximately $63 million of debt and lease obligations and a related financing in the amount of approximately $10 million.

Under the terms of the debt restructuring, the Company exchanged an aggregate of approximately $63 million of debt and equipment lease obligations for an aggregate of approximately $20 million of restructure notes and obligations due in installments commencing June 2003 through June 2006, 1.97 million shares of Class A Common Stock and warrants to purchase 1.8 million shares of Class A Common Stock. In addition, the Company purchased certain leased equipment for an aggregate purchase price of $3.5 million. The Company also recorded net extraordinary gains of $7.8 million upon the completion of the restructuring in accordance with FASB No. 15 during the fourth quarter of 2001.

The restructure notes bear interest at a rate of 12% per annum and mature five years from the date of the debt restructuring. The Company may elect to defer payment of accrued interest on a portion of the restructure notes until various dates commencing June 2003 and may elect to pay accrued interest on other restructure notes in shares of Class A common stock having a market value at the time of payment equal to 120% of the interest payment due. $9.1 million in principal amount of the restructure notes are convertible, at the option of the holder, into shares of Class A Common Stock of the Company at a conversion price of $10.00 per share, subject to adjustment in certain events. The Company will not be required to make scheduled principal payments on any of the notes until June 2003. All of the notes are callable at any time for cash. The warrants allow the holders to purchase shares of Class A Common Stock of the Company at an exercise price equal to $6.10 per share. The number of shares issuable upon exercise and the exercise price of the warrants are subject to adjustment in certain events. The warrants are exercisable for ten years after the date of the grant.

The restructure notes issued to AT&T Corp. and the former shareholder of STI have been accounted for in accordance with Financial Accounting Standards Board Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings." Because the total future cash or share payments specified by the terms of these restructure notes, including both payments designated as interest and those designated as principal, are less than the carrying amount of these restructure notes, the Company was required to reduce the carrying amount of the original notes exchanged for the restructure notes issued to AT&T and such former STI shareholder to an amount equal to the total future cash payments specified by the new terms. In future periods, all payments under the terms of the restructure notes for which future interest was included in the carrying amounts of such notes shall be accounted for as reductions of such carrying amounts, and no interest expense shall be recognized on such notes for any period between the respective dates of commencement of the accrual of interest on such notes and the maturity dates of such notes.

The Company recognized a gain on the debt restructuring in the amount of $7.8 million during the fourth quarter of 2001. This gain was calculated based on the amount of the total reduction in carrying values of the original restructure obligations as compared to the carrying values of the restructure notes minus the amount of the contingent share issuance obligation of $1.1 million recorded by the Company due to the assumed payment of interest on a portion of the restructure notes in shares of Class A common stock as described above. The gain also reflects the impact of the settlement of certain trade payables.

$5.875 million of the financing was represented by the investment of cash in exchange for 1,468,750 shares of Class A common stock. Approximately $1.3 million of this financing was represented by the investment of cash in exchange for senior convertible notes that are convertible into approximately 520,000 shares of Class A common stock, subject to adjustment in certain events. These notes are convertible at $2.50 per share. The beneficial conversion feature of $1.1 million is being amortized over a period of 5 years. Approximately $3.0 million of this financing was represented by the exchange of $1.4 million of cash equipment purchase obligations held by lessors and $1.6 million of other cash obligations held by AT&T for an aggregate of 820,000 shares of Class A common stock.

Notes payable include the following, in thousands

June 30, 2002

	Capitalized Interest	Principal
2000 7% Convertible Subordinated Notes due February 2005	$ --	$24,095
2001 10% Senior Convertible Notes due January 2006	8,082	36,009
2001 12% AT&T restructure note 13 quarterly payments beginning June 2003	4,300	10,000
2001 12% note payable to former shareholder of STI 13 quarterly payments beginning June 2003	832	2,683
2001 12% Restructure notes 13 quarterly payments beginning June 2003	--	6,435
2001 10% Note payable due October 2006	--	453
2001 Restructuring balloon payments due October 2004	--	897
Other	--	420
Total notes payable and capitalized interest	13,214	80,992
Less current portion	1,649	1,720
Non current portion	$ 11,565	$ 79,272

(7) Discontinued Operations

In March 2000, the Company formed World.com, Inc. in order to develop the Company's portfolio of domain names into independent web properties and subsequently acquired or formed its subsidiaries Asia.com, Inc. and India.com, Inc., in which World.com was the majority owner. On November 2, 2000, the Company announced its intention to sell all assets not related to its core outsourced messaging business including Asia.com, Inc., India.com, Inc. and its portfolio of domain names. Accordingly, World.com has been reflected as a discontinued operation.

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The Consolidated Financial Statements of the Company have been restated to reflect World.com as a discontinued operation in accordance with APB Opinion No. 30. Accordingly, revenues, costs and expenses, assets, liabilities and cash flows of World.com have been excluded from the respective captions in the Consolidated Statement of Operations, Consolidated Balance Sheets and Consolidated Statements of Cash Flows and have been reported as "Loss from discontinued operations," "Net liabilities of discontinued operations," and "Net cash (used in) provided by discontinued operations," for all periods presented.

During the six months ended June 30, 2001, the Company recorded a loss of $66 million to recognize the loss on discontinued operations. This loss includes a write-down of $52.6 million of assets, primarily goodwill, to net realizable value, operating losses of $11.3 million, severance and related benefits of $1.3 million, and other related cost and expenses including the closure of facilities of $0.8 million.

Summarized financial information for the discontinued operation is as follows:

Statements of Operations Data

Six Months Ended June 30,
(In Thousands)

	2002	2001
Revenues	$ --	$ 4,793
Loss from discontinued operations	$ --	$ 66,024

Balance Sheet Data (In Thousands)

	June 30, 2002	December 31, 2001
Current assets	$ 57	$ 74
Total assets	444	423
Current liabilities	636	1,873
Long-term liabilities and minority interest	225	225
Net liabilities of discontinued operations	$ (417)	$(1,675)

The information below pertains to certain events and activities associated with the operations of World.com and include: financings in connection with India.com, domain names included in discontinued operations, the acquisition and subsequent disposition of eLong.com, which was renamed to Asia.com, Inc., and other acquisitions made by World.com.

India.com Financing

During the third quarter of 2000, India.com, Inc., a wholly-owned subsidiary, issued 1,365,769 shares of Series A convertible preferred stock to private investors valued at $14.2 million. These shares were convertible into India.com Class A common stock at the initial purchase price of the preferred shares, subject to certain anti-dilution adjustments. In addition, the preferred share conversion price was also subject to reduction if the effective sales price in India.com's next significant equity financing did not represent a 33% premium to the current conversion price. The Company would measure the contingent beneficial conversion feature at the commitment date and treat this feature as a preferred dividend but would not recognize this preferred dividend in earnings until the contingency was resolved, if ever. The holders of the Series A convertible exchangeable preferred stock were entitled to a one time right exercisable during the 60 days after September 13, 2001 to exchange these shares for the number of shares of EasyLink Class A common stock equal to the original purchase price of such shares divided by the lesser of the market price of EasyLink's Class A common stock on September 13, 2001 (but not less than $45.00) and $60.00. This exchange right has since been modified as described below.

The Company entered into a Bridge Funding and Amendment Agreement with India.com, Inc. (the "Bridge Funding Agreement"). Under the Bridge Funding Agreement, the Company borrowed approximately $5 million from its majority-owned subsidiary India.com and issued to India.com bridge notes evidencing these borrowings (the "Bridge Notes"). Under the Bridge Funding Agreement, the Company issued to India.com warrants to purchase 20,000 shares of EasyLink's Class A common stock at an exercise price of $13.00 per share in consideration of the commitment under the Bridge Funding Agreement. In addition, India.com received warrants to purchase an additional 16,000 shares of EasyLink Class A common stock for each $1 million drawn down by the Company under the Bridge Funding Agreement. As a result of the drawings under the Bridge Funding Agreement, the

Company issued an additional 80,000 warrants at exercise prices ranging from $6.20 to $14.00 per warrant.

In consideration of the commitments under the Bridge Funding Agreement, the period during which the one-time exchange right of the holders of India.com preferred stock was changed from the 60-day period immediately after September 13, 2001 to the 60-day period immediately after December 31, 2001. In addition, the floor price at which shares of EasyLink Class A common stock were issuable upon the exchange was reduced from $45.00 per share to $30.00 per share immediately upon execution and delivery of the Bridge Funding Agreement and was subject to further reduction to $12.50 per share for a percentage of the total number of shares of India Preferred Stock that is equal to the percentage of the Bridge Note drawn down. As of March 31, 2001, $4.0 million of the Bridge Note had been drawn down.

Pursuant to an Exchange Agreement Amendment entered into on July 17, 2001 (the "Exchange Agreement Amendment") between the Company and the holders of India.com preferred stock, all of the holders of the outstanding shares of India.com preferred stock exercised their right to exchange their shares of India.com preferred stock for shares of the Company's Class A common stock based on the average of the closing market prices of the Company's stock over the five trading days ending on September 13, 2001, subject to a floor on the exchange price of $10.00 and a cap of $30.00 and subject to adjustment in certain circumstances. Based on the average of the closing prices of the Company's stock, the exchange price was $10.00 per share and 1,420,400 became issuable upon consummation of the exchange. As of September 30, 2001, the closing of the exchange transaction was subject to compliance with the requirements of the NASDAQ stock market. The Company entered into the Exchange Agreement Amendment in connection with the elimination of its obligations under the $5 million aggregate principal amount of bridge notes and the warrants to purchase an aggregate of 100,000 shares of the Company's Class A common stock issued to India.com.

On October 17, 2001, the Company and the holders of India.com preferred stock completed the exchange of India.com preferred stock for 1,420,400 shares of the Company's Class A common stock.

eLong.com, Inc.

On March 14, 2000, the Company acquired eLong.com, Inc., a Delaware corporation ("eLong.com") for approximately $62 million including acquisition costs of $365,000. eLong.com, through its wholly owned subsidiary in the People's Republic of China ("PRC"), operates the Web Site www.eLong.com, which is a provider of local content and other internet services. Concurrently with the merger, eLong.com changed its name to Asia.com, Inc. ("Asia.com"). In the merger, the Company issued to the former stockholders of eLong.com an aggregate of 359,949 shares of EasyLink Class A common stock valued at approximately $57.2 million, based upon the Company's average trading price at the date of acquisition. All outstanding options to purchase eLong.com common stock were converted into options to purchase an aggregate of 27,929 shares of EasyLink Class A common stock. The value of the options was approximately $4.4 million based on the Black-Scholes pricing model with a 110% volatility factor, a term of 10 years, a weighted average exercise price of $12.40 per share and a weighted average fair value of $156.90 per share.

The acquisition was accounted for as a purchase business combination. The excess of the purchase price over the fair market value of the acquired assets and assumed liabilities of Asia.com has been allocated to goodwill ($62 million). Goodwill is being amortized over a period of 3 years, the expected estimated period of benefit. During the fourth quarter of 2000, approximately $7.8 million of goodwill was written off as it was determined that the carrying value had become permanently impaired as a result of the November 2, 2000 decision, as approved by the Board of Directors, to sell all assets not related to its core outsourcing business, including its Asia-based businesses. After giving effect to the write off, the net goodwill balance at December 31, 2000 was $38.2 million.

In addition, the Company was obligated to issue up to an additional 71,990 shares of the Company's Class A common stock in the aggregate to the former stockholders of eLong.com if EasyLink or Asia.com acquired less than $50.0 million in value of businesses engaged in developing, marketing or providing consumer or business internet portals and related services focused on the Asian market or a portion thereof, or businesses in furtherance of such a business, prior to March 14, 2001. In May 2001, the Company issued 7,500 shares of Class A common stock in settlement of this contingency.

In the merger, certain former stockholders of eLong.com retained shares of Class A common stock of Asia.com, representing approximately 4.0% of the outstanding common stock of Asia.com. Under a Contribution Agreement with Asia.com, these stockholders contributed an aggregate of $2.0 million in cash to Asia.com in exchange for additional shares of Class A common stock of Asia.com, representing approximately 1.9% of the outstanding common stock of Asia.com. Pursuant to the Contribution Agreement, EasyLink (1) contributed to Asia.com the domain names Asia.com and Singapore.com and $10.0 million in cash and (2) agreed to contribute to Asia.com up to an additional $10.0 million in cash over the next 12 months and to issue, at the request of Asia.com, up to an aggregate of 24,242 shares of EasyLink Class A common stock for future acquisitions. In connection with the subsequent sale of eLong.com, Inc., the Contribution Agreement was terminated. See also "Asia.com Acquisitions" and "Sale of eLong.com Inc.," below. As a result of the transactions effected pursuant to the Merger Agreement and the Contribution Agreement, EasyLink initially owned shares of Class B common stock of Asia.com representing approximately 94.1% of the outstanding common stock of Asia.com. The company's ownership percentage decreased to 92% as of December 31, 2000. Asia.com granted to management employees of Asia.com options to purchase Class A common stock of Asia.com representing, as of December 31, 2000, 9% of the outstanding shares of common stock after giving effect to the exercise of such options.

Sale of eLong.com Inc.

On May 3, 2001, the Company's majority owned subsidiary Asia.com, Inc. sold its business to an investor group. Under the terms of the sale, the buyer paid Asia.com $1.5 million and assumed eLong.com liabilities of approximately $1.5 million. The consideration paid was determined as a result of negotiations between the buyer and EasyLink. In addition, the Company issued 20,000 shares of its Class A common stock valued at $138,000 in exchange for the cancellation of certain options granted to the former owners of eLong.com. The Company accounted for this transaction as part of the sale of the business of Asia.com. As a result of the sale, the Company recorded a loss on the sale of eLong.com, Inc. of $264,000. After the closing of the sale, the Company issued 36,232 shares in January 2002 to eLong.com, Inc. in full satisfaction of an indemnity obligation. The indemnity obligation arose out of eLong.com's settlement of a claim brought by former Lohoo shareholders for a contingent payment. Lohoo was previously acquired by eLong.com, Inc.

India Acquisition and Divestiture

During the first quarter of 2001, the Company acquired a US and India based company for approximately $600,000, including acquisition costs. The terms were $300,000 in cash and 19,600 shares of EasyLink Class A common stock valued at approximately $272,000 based upon the average trading price of EasyLink Class A common stock surrounding the date of acquisition. The acquisition was accounted for as a purchase business combination. The excess of the purchase price over the fair market value of the assets acquired and assumed liabilities had been allocated to goodwill ($831,000), which was being amortized over a period of three years, the expected estimated period of benefit.

The Company subsequently transferred this acquired business to the former management of its India.com subsidiary. As part of the transaction, the transferred business assumed all of the liabilities of the transferred business and certain liabilities of India.com. In consideration for the assumption of these liabilities, the Company contributed to the transferred business immediately prior to the sale in January 2002 56,075 shares of Class A common stock valued at approximately $314,000 and $300,000 in cash.

(8) Related Party Transactions

Federal Partners, L.P. Financings

On January 8, 2001, the Company issued $5,000,000 principal amount of 10% Senior Convertible Notes due January 8, 2006 to Federal Partners, L.P. The Clark Estates, Inc. provides management and administrative services to Federal Partners. Federal Partners and accounts for which The Clark Estates, Inc. provides management and administrative services are beneficial holders of approximately 9.9% of the Company's common stock, including shares issuable upon conversion of senior convertible notes held by Federal Partners but excluding shares issuable upon the conversion or exercise of other notes, warrants or options. On March 20, 2001, the Company issued to Federal Partners, L.P. 300,000 shares of our Class A Common Stock for a purchase price of $3,000,000, and committed to issue to Federal Partners an additional 100,000 shares of Class A Common Stock if the closing price of our Class A Common Stock on the principal securities exchange on which they are traded was not at or above $100 per share for 5 consecutive days. These additional shares were issued in January 2002. As part of the financing completed on November 27, 2001 in connection with our debt restructuring, the Company issued to Federal Partners an aggregate of 250,369 shares of Class A common stock for a purchase price of $1,700,000, and committed to issue to Federal Partners an additional 173,632 shares of Class A Common Stock if the average of the closing prices of our Class A Common Stock on Nasdaq was not at or above $16.00 per share for the 10 consecutive trading days through year end 2001.

In connection with the issuance of the senior convertible notes on January 8, 2001, the Company granted to Federal Partners, L.P. the right to designate one director to our Board of Directors so long as Federal Partners, L.P. and other persons associated with it owns at least 300,000 shares of Class A Common Stock, including shares issuable upon conversion of or in payment of interest on the senior convertible notes. Federal Partners, L.P. designated Stephen Duff and he was appointed to our Board on January 8, 2001. Mr. Duff is a Senior Investment Manager for The Clark Estates, Inc. and is Treasurer and a limited partner of Federal Partners, L.P. The Clark Estates, Inc. provides management and administrative services for Federal Partners, L.P. Through his limited partnership interest in Federal Partners, L.P., Mr. Duff has an indirect interest in $10,000 principal amount of the senior convertible notes issued on January 8, 2001, in 600 of the shares of Class A Common Stock issued to Federal Partners, L.P. on March 20, 2001 and in 850 of the shares of Class A Common Stock issued to Federal Partners, L.P. in connection with the November 27, 2001 financing.

Acquisition of Swift Telecommunications, Inc.

The Company acquired Swift Telecommunications, Inc. on February 23, 2001. George Abi Zeid was the sole shareholder of Swift Telecommunications, Inc ("STI"). In connection with the acquisition, Mr. Abi Zeid was elected to the Board of Directors of the Company and was appointed President - International Operations. EasyLink Services paid $835,294 in cash, issued 1,876,618 shares of Class A Common Stock and issued a promissory note in the original principal amount of approximately $9.2 million to Mr. Abi Zeid in payment of the purchase price for the acquisition payable at the closing. Under the merger agreement, EasyLink Services also agreed to pay additional contingent consideration to Mr. Abi Zeid equal to the amount of the net proceeds, after satisfaction of certain liabilities of STI and its subsidiaries, from the sale or liquidation of the assets of one of STI's subsidiaries. The $9.2 million note was payable in four equal semi-annual installments over two years. The note was non-interest bearing except in certain circumstances. Pursuant to the debt restructuring completed on November 27, 2001, EasyLink issued $2,682,964 principal amount of restructure notes, 268,296 shares of Class A common stock and warrants to purchase 268,296 shares of Class A common stock in exchange for Mr. Abi Zeid's $9.2 million note. See Note 6 Notes Payable.

In connection with the acquisition by STI on January 31, 2001 of the EasyLink services business from AT&T Corp., Mr. Abi Zeid pledged to AT&T Corp. under a Pledge Agreement dated January 31, 2001 all of the shares of EasyLink Services Class A Common Stock that he was entitled to receive pursuant to the acquisition to secure a $35 million note issued to AT&T Corp. by STI and assumed by EasyLink Services as part of the purchase price for the EasyLink Services business. As a result of the debt restructuring completed on November 27, 2001, these shares now secure the $10 million principal amount of restructure notes issued to AT&T Corp. in exchange for the $35 million note held by it.

In connection with the acquisition of STI on February 23, 2001, the Company also entered into a conditional commitment to acquire Telecom International, Inc. ("TII"). TII was an affiliate of STI prior to the acquisition of STI by the Company. George Abi Zeid is a principal beneficial shareholder of TII. The purchase price for TII was originally agreed to be US$117,646 in cash, a promissory note in the aggregate principal amount of approximately $1,294,118 and 267,059 shares of the Company's Class A common stock. In order to facilitate the debt restructuring and to reduce the Company's debt obligations and cash commitments, the parties agreed to modify the Company's commitments in respect of TII. In lieu of acquiring TII, the Company purchased certain assets owned by TII for six monthly payments of $10,000 commencing May 27, 2002 and one payment of $190,000 on November 27, 2002. The Company also agreed to reimburse TII for up to 50% of TII's payments on certain accounts payable up to a maximum reimbursement of $200,000, to cancel a $236,490 payable owed by STI to the Company and to issue up to 20,000 shares of Class A common stock to TII. In addition, the Company issued 300,000 shares of Class A common stock to TII.

As part of the transaction with STI, EasyLink Services also entered into a conditional commitment to acquire the 25% minority interests in two STI subsidiaries for $47,059 in cash, promissory notes in the aggregate principal amount of approximately $517,647 and 106,826 shares of Class A Common Stock. This transaction is subject to certain conditions, including satisfactory completion of due diligence, receipt of regulatory approvals and other customary conditions.

Mr. Abi Zeid also agreed to contribute up to approximately 1.2 million shares of Class A common stock issuable to him in connection with the debt restructuring in order to permit the grant of shares or options to employees. The shares, which were valued at $0.5 million, were accounted for as compensation expense in the fourth quarter of 2001.

(9) Capital Stock

Reverse Stock Split

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

Authorized Shares

In 2001, the Company amended its amended and restated certificate of incorporation, as amended, in order to increase the number of authorized shares up to 570,000,000 consisting of 500,000,000 and 10,000,000 shares of Class A and Class B common stock, respectively; and 60,000,000 undesignated shares of preferred stock, all classes with a par value of $0.01 per share. These amounts continue to represent the respective numbers of authorized shares of the Company as of the date hereof.

Private Placements of Common Stock

On March 20, 2001, the Company completed a private placement of 300,000 shares of Class A common stock (the "Common Shares") with a private investor for an aggregate price of $3,000,000. Pursuant to the Common Stock Purchase Agreement dated as of March 13, 2001 between the Company and the private investor and subject to the effectiveness of a registration statement covering shares of Class A common stock issuable upon conversion of certain convertible notes, EasyLink was obligated to issue an additional 100,000 shares of Class A common stock to the private investor if the closing price of the Company's Class A common stock was not at or above $100 per share for at least five consecutive trading days during 2001. These shares were issued in January 2002.

Common Stock and Warrants issued in Debt Restructuring and Related Financing

Under the terms of the Company's debt restructuring completed on November 27, 2001, the Company exchanged an aggregate of approximately $63 million of debt and equipment lease obligations for an aggregate of approximately $20 million of restructure notes and obligations due in installments commencing June 2003 through June 2006, 1.97 million shares of Class A Common Stock valued at $12.0 million and warrants to purchase 1.8 million shares of Class A Common Stock valued at $0.5 million. $9.1 million in principal amount of the restructure notes are convertible into shares of Class A common stock at a conversion price of $10.00 per share, subject to adjustment.

As a condition to the debt restructuring, the Company completed a financing. $5.875 million of this financing was represented by the investment of cash in exchange for 1,468,750 shares of Class A common stock. Approximately $3.0 million of this financing was represented by the exchange of $1.4 million of cash equipment purchase obligations held by lessors and $1.6 million of other cash obligations held by AT&T for an aggregate of 820,000 shares of Class A common stock.

Additional Common Stock Issued

The Company issued 574,637 shares of Class A common stock valued at approximately $1.5 million as payment for interest in lieu of cash during the six months ended June 30, 2002.

During the six months ended June 30, 2002, the Company also issued shares of Class A common stock as follows:

The Company issued 56,075 shares of Class A common stock valued at approximately $314,000 in connection with the divestiture of a subsidiary of the Company's India.com subsidiary (see Note 7).

The Company issued 36,232 shares of Class A common stock valued at approximately $203,000 in connection with the settlement of an indemnification obligation arising out of the sale of Asia.com's eLong.com business. The indemnification obligation arose out of a contingent payment obligation owed by eLong.com to the sellers of a business purchased by eLong.com (see Note 7).

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

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

The Company issued 7,716 shares of Class A common stock valued at approximately $11,000 in connection with a severance agreement.

The Company issued 106,534 shares of Class A common stock valued at approximately $100,000 in settlement of a vendor obligation.

The Company issued 102,075 shares of Class A common stock valued at approximately $220,000 to the trustee of the Company's 401(k) plan in satisfaction of the Company match feature of the plan.

(10) Restructuring Charges

During the six months ended June 30, 2002 and 2001, restructuring charges of $0 million and $25.3 million, respectively, were recorded by the Company in accordance with the provisions of EITF 94-3, and Staff Accounting Bulletin 100. The Company's restructuring initiatives are related to our strategic decisions to exit the consumer messaging business and to focus on the Company's outsourced messaging business. During 2001, the Company's restructuring program included an incremental reduction in the workforce of approximately 150 employees. Employees affected by the restructuring were notified by direct personal contact and by written notification. The remaining employee benefit termination amounts are being paid out in 2002. The lease abandonments represent the cost to exit the facility leases. The remaining amounts are to be paid out over the next 3 years, which corresponds to the terms of the lease.

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The following sets forth the activity in the Company's restructuring reserve (in thousands):

	Beginning balance	Current year-provision	Current y utilizat
Employee termination benefits..................	$ 228	$ --	$ 88
Lease abandonments............................	539	--	276

Other exit costs............................	32	--	--
	$ 799	$ --	$ 364

(11) Commitments and Contingencies

Master Carrier Agreement

In connection with the acquisition of the EasyLink Services business from AT&T Corp., the Company entered into a Master Carrier Agreement with AT&T. Under this agreement, AT&T will provide the Company with a variety of telecommunications services that are required in connection with the provision of the Company's services. The term of the agreement for network connection services is 36 months commencing after an initial ramp-up period of 6 months (that is, until May 1, 2005) and the term of the agreement for private line and satellite services is 36 months commencing with the first full month in which any of these services are provided (that is, until March 1, 2004). Under the agreement, the Company has a minimum revenue commitment for network connection services equal to $3 million for each of the three years of the contract. In addition, we have a minimum revenue commitment for private line and satellite services equal to $280,000 per month during the three-year term. If the Company terminates the network connection services or the private line and satellite services prior to the term or AT&T terminates the services for our breach, the Company must pay to AT&T a termination charge equal to 50% of the unsatisfied minimum revenue commitment for these services for the period in which termination occurs plus 50% of the minimum revenue commitment for each remaining commitment period in the term.

Other Telecommunications Services

The Company has committed to purchase from MCI Worldcom a minimum of $500,000 per month in telecommunications services through December 31, 2002 and $75,000 per month in other telecommunications services through January 2005.

Legal Proceedings

From time to time the Company has been, and expects to continue to be, subject to legal proceedings and claims in the ordinary course of business. These include claims of alleged infringement of third-party patents, trademarks, copyrights, domain names and other similar proprietary rights; employment claims; and contract claims. These claims include pending claims that some of our services employ technology covered by third party patents. These claims, even if not meritorious, could require the Company to expend significant financial and managerial resources. No assurance can be given as to the outcome of one or more claims of this nature. If an infringement claim were determined in a manner adverse to the Company, the Company may be required to discontinue use of any infringing technology, to pay damages and/or to pay ongoing license fees which would increase the Company's costs of providing the service.

The Company has also received notices or claims from certain third parties for disputed and unpaid accounts payable. The Company believes that it has appropriately reserved for the amount of any liability that may arise out of these matters, and management believes that these matters will be resolved without a material effect on the Company's financial position or results of operations.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

Overview

On April 2, 2001, we changed our name to EasyLink Services Corporation. We believe that the name change will help create a corporate identity tied to our focus on outsourced electronic information exchange services. We are a leading provider of services that power the electronic exchange of information between enterprises, their trading communities and their customers. Every business day, we handle over 800,000 transactions that are integral to the movement of money, materials, products and people in the global economy such as insurance claims, trade and travel confirmations, purchase orders, invoices, shipping notices and funds transfers, among many others. We offer a broad range of information exchange services to businesses and service providers, including electronic data interchange services or "EDI;" production messaging services; integrated desktop messaging services; boundary and managed email services; and other services largely consisting of legacy real time fax services.

Until March 30, 2001, we also offered advertising services and consumer e-mail services to Web sites, ISP's and direct to consumers. In this market, we provided Web-based e-mail services or WebMail to Internet Service Providers (ISPs) including several of the world's top ISPs, and we partnered with top branded Web sites to provide WebMail services to their users. In addition, we served the market directly through our flagship web site www.mail.com. On October 26, 2000, the Company announced its intention to sell its advertising network business and stated that it will focus exclusively on its established outsourced messaging business. The Company also announced that as a result of its decision to focus on its outsourced messaging business, it is streamlining the organization, taking advantage of lower cost areas and further integrating its technological and operational infrastructures. On March 30, 2001, we completed the sale of our advertising network and consumer e-mail business to Net2Phone. In connection with the sale, we entered into a hosting agreement under which we would host or arrange for a third party to host the consumer e-mailboxes for Net2Phone for a minimum of one year. In November 2001, we finalized an agreement with Net2Phone terminating the hosting agreement as of September 30, 2001.

In March 2000, EasyLink formed WORLD.com to develop the Company's extensive portfolio of domain names into major Web properties, such as Asia.com and India.com, which served the business-to-business and business-to-consumer marketplace. Through its subsidiaries, WORLD.com generated revenues primarily from sales of information technology products, system integration and website development for other companies, advertising related sales and commissions earned from booking travel arrangements. On November 2, 2000, the Company announced that it would sell all assets not related to its core outsourced messaging business, including its Asia.com Inc., and India.com Inc. subsidiaries, and its portfolio of category-defining domain names. On May 3, 2001, Asia.com, Inc. sold its business to an investor group. In October 2001, we sold 90% of a subsidiary of India.com, Inc. and we have ceased conducting its portal business. Accordingly, the results of World.com and its subsidiaries have been restated as discontinued operations in our financial statements for all periods presented. See Notes 1(c) and 7 to our consolidated financial statements for additional information.

For the six months ended June 30, 2002, total revenues were $60.3 million compared to $53.6 million for the six months ended June 30, 2001. Net loss was $3.9 million for the six months ended June 30, 2002 as compared to $127.7 million for the six months ended June 30, 2001.

During the first six months of 2002, we generated substantially all of our revenues from the provision of messaging services to enterprises. For the six months ended June 30, 2002 and 2001, approximately $60.3 million and $52.0 million, respectively, of our revenues were generated from companies we acquired since January 1, 2001.

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

Historically, our basic advertising network e-mail services were free to our members. Prior to our acquisition of NetMoves in February 2000, we generated the majority of our revenues from our advertising network e-mail services, primarily from advertising related sales, including direct marketing and e-commerce promotion. We also engaged in barter transactions as part of the advertising network business. Under these arrangements, we delivered advertisements promoting a third party's goods and services in exchange for their agreement to run advertisements promoting our Webmail service. We recorded barter revenues and expenses at the fair market value of either the services we provided or of those we received, whichever was more readily determinable under the circumstances. Barter revenues were $0.6 million for the six months ended June 30, 2001 as the date of sale of this business was March 30, 2001.

In light of the evolving nature of our business and our limited operating history, we believe that period-to-period comparisons of our revenues and operating results are not meaningful and should not be relied upon as indications of future performance. However, we do believe that the our revenues and operating results in future periods will be more comparable to the results for the six months ended June 30, 2002.

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

Critical Accounting Policies

In response to the Securities & Exchange Commission's (SEC) Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," we have identified the most critical accounting principles upon which our financial status depends. Critical principles were determined by considering accounting policies that involve the most complex or subjective decisions or assessments. The most critical accounting policies were identified to be those related to revenue recognition, valuation of intangible assets, valuation of accounts receivable and purchase commitments. Our revenue recognition, intangible asset and commitments and contingencies policies are stated in the notes to the consolidated financial statements and at relevant sections in this discussion and analysis.

Acquisitions, Investments and Divestitures

Continuing Operations

Swift Telecommunications, Inc. and EasyLink Services

On February 23, 2001, we acquired Swift Telecommunications, Inc., ("STI"). Just prior to the acquisition in January 2001, STI acquired the EasyLink Services business ("EasyLink Services") from AT&T Corp. At the closing of the acquisition by STI of the EasyLink Services business from AT&T, we advanced $14 million to STI in the form of a loan, the proceeds of which were used to fund part of the cash portion of the purchase price to AT&T. Upon the closing of the acquisition of STI, we assumed a $35 million note issued by STI to AT&T. The $35 million note was secured by the assets of STI, including the EasyLink Services business, and the shares of our Class A common stock issued to the sole shareholder in the Merger. The note was payable in equal monthly installments over four years with interest at the rate of 10% per annum. In November 2001, the note, and accrued interest thereon, was exchanged for a new note in the principal amount of $10 million, 1 million shares of the Company's Class A common stock and warrants to purchase an additional 1 million shares of stock. See Note 6 for a description of the Restructuring of certain debt and lease obligations.

Upon the closing of the acquisition of STI, the Company paid to the sole shareholder of STI $835,294 in cash and issued an unsecured note for approximately $9.2 million and approximately 1.9 million shares of our Class A common stock valued at approximately $22.9 million as the purchase price for the acquisition of STI. We will also pay additional consideration to the sole shareholder of STI equal to the amount of the net proceeds, after satisfaction of certain liabilities of STI and its subsidiaries, from the sale or liquidation of the assets of one of STI's subsidiaries. We also reimbursed the sole shareholder of STI for a $1.5 million advance made to STI, the proceeds of which were used to fund the balance of the cash portion of the purchase price for STI's acquisition of the EasyLink Services business and certain other obligations to AT&T. The $9.2 million note was non-interest bearing and payable in four equal semi-annual installments over two years. In November 2001, this note was exchanged for a new note in the principal amount of $2.7 million, 268,296 shares of the Company's Class A common stock and warrants to purchase 268,296 shares of stock. See Note 6 for a description of the Restructuring of Certain Debt and Lease Obligations.

In connection with the acquisition of STI on February 23, 2001, we also entered into a conditional commitment to acquire Telecom International, Inc. ("TII"). TII was an affiliate of STI prior to the acquisition of STI by us. The sole shareholder of STI, who is an officer of EasyLink, is a principal beneficial shareholder of TII. The purchase price for TII was originally agreed to be $117,646 in cash, a promissory note in the aggregate principal amount of approximately $1,294,118 and 267,059 shares of our Class A common stock. In order to facilitate the debt restructuring and to reduce our debt obligations and cash commitments, the parties agreed to modify our commitments in respect of TII. In lieu of acquiring TII, we purchased certain assets owned by TII for $250,000, payable in six monthly payments of $10,000 commencing May 27, 2002 and one payment of $190,000 on November 27, 2002. We also agreed to reimburse TII for up to 50% of TII's payments on certain accounts payable up to a maximum reimbursement of $200,000, to cancel a $236,490 payable owed by STI to us and to issue up to 20,000 shares of Class A common stock to TII valued at $122,000. In addition, we issued 300,000 shares of Class A common stock to TII valued at $1,890,000.

As part of the transaction with STI, we also entered into a conditional commitment to acquire the 25% minority interests in two STI subsidiaries for $47,059 in cash, promissory notes in the aggregate principal amount of approximately $517,647 and 106,826 shares of Class A Common Stock. This transaction is subject to certain conditions, including satisfactory completion of due diligence, receipt of regulatory approvals and other customary conditions.

Discontinued Operations

In March 2000, the Company formed World.com, Inc. in order to develop the Company's portfolio of domain names into independent web properties and subsequently acquired or formed its subsidiaries Asia.com, Inc. and India.com, Inc., in which World.com was the majority owner. On November 2, 2000, the Company announced its intention to sell all assets not related to its core outsourced messaging business including Asia.com, Inc., India.com, Inc. and its portfolio of domain names. Accordingly, World.com has been reflected as a discontinued operation. During the six months ended June 30, 2001, the Company recorded a loss of $66 million to recognize the loss on discontinued operations. This loss includes a write-down of $52.6 million of assets, primarily goodwill, to net realizable value, operating losses of $11.3 million, severance and related benefits of $1.3 million, and other related cost and expenses including the closure of facilities of $0.8 million.

The information below pertains to certain events and activities associated with the operations of World.com and include: financings in connection with India.com, domain names included in discontinued operations, the acquisition and subsequent disposition of eLong.com, which was renamed to Asia.com, Inc., and other acquisitions made by World.com.

On March 14, 2000, we acquired eLong.com, Inc., a Delaware corporation ("eLong.com") for approximately $62 million including acquisition costs of approximately $365,000. eLong.com, through its wholly owned subsidiary in the People's Republic of China, operates the Web Site www.eLong.com, which is a provider of local content and other internet services. The acquisition was accounted for as a purchase business combination. Concurrently with the merger, eLong.com changed its name to Asia.com, Inc. ("Asia.com"). In the merger, we issued to the former stockholders of eLong.com an aggregate of 359,949 shares of Class A common stock valued at approximately $57.2 million, based upon our average trading at the date of acquisition. All outstanding options to purchase eLong.com common stock were converted into options to purchase an aggregate of 27,929 shares of Class A common stock. The options were valued at approximately $4.4 million.

During the fourth quarter of 2000, we wrote off approximately $7.8 million of goodwill, as it was determined that the carrying value had become permanently impaired as a result of our November 2, 2000 decision, as approved by the Board of Directors, to sell all assets not related to its core outsourcing business, including its Asia-based businesses.

In addition, we were obligated to issue up to an additional 71,990 shares of Class A common stock in the aggregate to the former stockholders of eLong.com if EasyLink or Asia.com acquired less than $50.0 million in value of businesses engaged in developing, marketing or providing consumer or business internet portals and related services focused on the Asian market or a portion thereof, or businesses in furtherance of such a business, prior to March 14, 2001. The actual amount of shares to be issued was based upon the amount of any shortfall in acquisitions below the $50.0 million target amount. Based upon the value of the acquisitions completed as of March 14, 2001, we issued approximately 7,500 shares of our Class A common stock to the former stockholders of eLong.com. See Note 7 to our consolidated financial statements for additional information.

In the merger, certain former stockholders of eLong.com retained shares of Class A common stock of Asia.com representing approximately 4.0% of the outstanding common stock of Asia.com. Under a separate Contribution Agreement with Asia.com these stockholders contributed an aggregate of $2.0 million in cash to Asia.com in exchange for additional shares of Class A common stock of Asia.com, representing approximately 1.9% of the outstanding common stock of Asia.com. Pursuant to the Contribution Agreement, EasyLink (1) contributed to Asia.com the domain names Asia.com and Singapore.com and $10.0 million in cash and (2) agreed to contribute to Asia.com up to an additional $10.0 million in cash over the next 12 months and to issue, at the request of Asia.com, up to an aggregate of 24,242 shares of Class A common stock for future acquisitions. As a result of the transactions effected pursuant to the Merger Agreement and the Contribution Agreement, EasyLink initially owned shares of Class B common stock of Asia.com representing approximately 94.1% of the outstanding common stock of Asia.com. Our ownership percentage decreased to 92% as of December 31, 2000. Asia.com granted to management employees of Asia.com options to purchase Class A common stock of Asia.com representing, as of December 31, 2000, 9% of the outstanding shares of common stock after giving effect to the exercise of such options.

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On May 3, 2001, the Company's majority owned subsidiary Asia.com, Inc. sold its business to an investor group. Under the terms of the sale, the buyer paid Asia.com $1.5 million and assumed eLong.com liabilities of approximately $1.5 million. The consideration paid was determined as a result of negotiations between the buyer and EasyLink. In addition, the Company issued 20,000 shares of its Class A common stock valued at $138,000 in exchange for the cancellation of certain options granted to the former owners of eLong.com. The Company accounted for this transaction as part of the sale of the business of Asia.com. As a result of the sale, the Company recorded a loss on the sale of eLong.com, Inc. of $264,000. After the closing of the sale, the Company issued 36,232 shares to eLong.com, Inc. in full satisfaction of an indemnity obligation. The indemnity obligation arose out of eLong.com's settlement of a claim brought by former Lohoo shareholders for a contingent payment. Lohoo was previously acquired by eLong.com, Inc.

During the second quarter of 2001, the Company acquired a US and India based company for approximately $600,000, including acquisition costs. The terms were $300,000 in cash and 19,600 shares of EasyLink Class A common stock valued at approximately $272,000 based upon our average trading price surrounding the date of acquisition. The acquisition was accounted for as a purchase business combination. The excess of the purchase price over the fair market value of the assets acquired and assumed liabilities has been allocated to goodwill ($831,000), which was being amortized over a period of three years, the expected estimated period of benefit. The Company subsequently transferred this acquired business to the former management of its India.com subsidiary. As part of the transaction, the transferred business assumed all of the liabilities of the transferred business and certain liabilities of India.com. In consideration for the assumption of these liabilities, the Company contributed to the transferred business immediately prior to the sale in January 2002 56,075 shares of Class A common stock valued at $314,000 and $300,000 in cash.

RESULTS OF OPERATIONS THREE AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001

Three months ended June 30, 2002 and 2001

Revenues

Revenues for the three months ended June 30, 2002 were $30.0 million, as compared to $33.9 million for the comparable period in 2001. The decrease of $3.9 million primarily occurred on production messaging services ($2.7 million) and in boundary and hosted email services ($0.9 million). The decline in production messaging services, which includes fax, email and telex, resulted from reduced volumes and negotiated price reductions at the time of customer contract renewals for certain of our larger customers and a reduction in revenues from smaller revenue customers. The decrease in hosted email services is largely attributable to the loss of hosting revenues from Net2Phone (an arrangement related to the sale of our advertising network to Net2Phone in March 2001), which amounted to $0.5 million in revenues for the second quarter of 2001.

Revenues for the three months ended June 30, 2002 and 2001 consist entirely of revenues from providing information exchange services to businesses and are derived from electronic data interchange services or `EDI;" production messaging services; integrated desktop messaging services; boundary and managed email services; and other services largely consisting of legacy real time fax services.

Cost of Revenues

Cost of revenues for the three months ended June 30, 2002 decreased to $14.3 million and 47.6% of revenues, as compared to $22.1 million and 65.3% of revenues for the comparable period in 2001. The decreased cost resulted in a gross profit of 52.4% in the 2002 quarter, representing an improvement of 17.7 points over the comparable 2001 quarter's results of 34.7%. Cost of revenues consists primarily of costs incurred in the delivery and support of our services, including depreciation of equipment used in our computer systems, the cost of telecommunications services including local access charges, leased network backbone circuit costs and long distance domestic and international termination charges, and personnel costs associated with our systems, databases and graphics. The reduction in cost, both in total amount and as a percentage of revenues, and the increase in gross profit percentage, is attributable to cost reduction programs implemented throughout 2001; $1.8 million of reduced charges for network support costs under the Transition Services Agreement with AT&T Corp. (the "TSA") related to the acquired Easylink Service business; $2.7 million in lower depreciation charges; and lower telecommunications costs from negotiated price reductions and volume reductions in certain product lines. This quarter also included a reversal of $0.5 million of prior year cash bonus accruals for network and facilities management.

Sales and Marketing Expenses

Sales and marketing expenses were $5.3 million for the three months ended June 30, 2002 as compared to $7.6 million for the comparable period in 2001. Included in this category are costs related to salaries and commissions for sales, marketing, and business development personnel, marketing consultant services and costs associated with various advertising and promotion campaigns to build our brand. The decreased costs of $2.3 million in the 2002 quarter is the result of reducing the number of employees and marketing consultants, recognizing $0.3 million of gains related to vendor settlements, the reversal of $0.3 million of prior year's accrued employee cash bonuses in 2002 and generally eliminating advertising in 2002 as compared to $0.6million in advertising spending for the 2001 comparable quarter.

General and Administrative Expenses

General and administrative expenses were $7.1 million during the three months ended June 30, 2002 as compared to $11.9 million during the comparable period of 2001. The $4.8 million decrease was attributable to a decrease in personnel and related costs, a $1.7 million reduction in charges under the TSA as support for these functions from AT&T ceased by the end of 2001, the reversal of $0.6 million of prior years' accrued employee cash bonuses in 2002 and a decrease of $0.2 million in our provision for doubtful accounts over the comparable period. General and administrative expenses consist primarily of compensation and other employee costs for corporate office functions, customer support and customer billing operations. These costs also include our provision for doubtful accounts and corporate wide overhead expenses.

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 $1.6 million for the three months ended June 30, 2002 as compared to $2.6 million in comparable period of 2001. The decrease of $1.0 million results from a reduced utilization of consultants in 2002 and the reversal of $0.3 million of prior years' accrued employee cash bonuses in 2002 for this employee group.

Amortization of Goodwill and Other Intangible Assets

Amortization of intangibles of $1.7 million for the three months ended June 30, 2002 decreased from $12.7 million for the comparable period of 2001. The primary reason for the decrease was the adoption of SFAS No. 142 - "Goodwill and Other Intangible Assets." The standard eliminates goodwill amortization upon adoption and requires an initial assessment for goodwill impairment within six months of adoption and at least annually thereafter. For the three months ended June 30, 2001, goodwill amortization from continuing operations was $10.6 million and $0.3 million from discontinued operations.

In connection with the adoption of Statement 142 on January 1, 2002, the Company reclassified $3.6 million in net book value associated with assembled workforce to goodwill.

Restructuring Charges

During the three months ended June 30, 2001, restructuring charges of $13.1 million were recorded by the Company in accordance with the provisions of EITF 94-3, and Staff Accounting Bulletin 100. The Company's restructuring initiatives are related to our strategic decisions to exit the consumer messaging business and to focus on the Company's outsourced messaging business. No restructuring charges have been recorded in 2002.

Impairment Charges

The Company's management performs on-going business reviews and, based on quantitative and qualitative measures, assesses the need to record impairment losses on long-lived assets used in operations when impairment indicators are present.

Where impairment indicators were identified, management determined the amount of the impairment charge by comparing the carrying value of goodwill and other long-lived assets to their fair values. These evaluations of impairments are based upon an achievement of business plan objectives and milestones of each business, the fair value of each ownership interest relative to its carrying value, the financial condition and prospects of the business and other relevant factors. The business plan objectives and milestones that are considered include among others, those related to financial performance, such as achievement of planned financial results and completion of capital raising activities, if any, and those that are not primarily financial in nature, such as launching or enhancements of a web site or product, the hiring of key employees, and the number of messages generated by a customer. Management determines fair value based on the market approach, which includes analysis of market price multiples of companies engaged in lines of business similar to the business being evaluated. The market price multiples are selected and applied to the business based on the relative performance, future prospects and risk profile of the business in comparison to the guideline companies. As a result, during management's 2001 quarterly review of the value and periods of amortization of both goodwill and other long-lived assets, it was determined that the carrying value of goodwill and certain other intangible assets were not fully recoverable.

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The e-mail addresses for many of the domains were sold to Net2Phone as part of the sale of the advertising network. As a result of this and eroding market conditions, management determined that the carrying value of many of these domains were impaired and recorded an impairment charge of $3.6 million during the three months ended March 31, 2001 to reduce the carrying value of these assets to anticipated values to be received from a third party.

Income (Loss) From Operations:

Income from operations for the three months ended June 30, 2002 of $0.04 million was favorably impacted by a net release of $1.7 million in accrued expenses during the second quarter resulting from the decision not to pay prior year cash bonuses in 2002.

Other Income (Expense), Net

Interest income for the three months ended June 30, 2002 was $35,000 as compared to $112,000 during the comparable period of 2001. The decrease was due to lower cash balances and lower interest rates on temporary investments.

Interest expense was $1.3 million for the three months ended June 30, 2002 as compared to $2.5 million in the comparable period of 2001. The decrease was primarily due to reductions in the total debt balances outstanding during the quarter ended June 30, 2002 as compared to the same quarter in 2001 as a result of certain exchange transactions completed in 2001 and the debt restructuring that was completed on November 27, 2001. The exchange transactions resulted in the issuance of $23.8 million of 10% Senior Convertible Notes ("Exchange Notes") in exchange for the cancellation of $75.9 million of 7% Convertible Subordinated Notes in the three months ended March 31, 2001. The debt restructuring consisted of the exchange of approximately $63 million of debt and equipment lease obligations for an aggregate of approximately $20 million of restructured notes and obligations in addition to 1.97 million shares of Class A Common Stock and warrants to purchase 1.8 million of Class A Common Stock.

As indicated above, management performs on-going business reviews and, based on quantitative and qualitative measures, assesses the need to record impairment losses on its investments when impairment indicators are present. During the second quarter of 2001, we recorded additional impairment charges of approximately $7.5 million as management determined that the carrying value of certain cost investments were permanently impaired.

Discontinued Operations

The loss from discontinued operations includes the results and other costs related to the Company's discontinued WORLD.com business, including its subsidiaries, Asia.com, Inc. and India.com, Inc. During the three months ended June 30, 2002, there were no losses incurred from the discontinued operations. During the three months ended June 30, 2001, the $12 million loss from discontinued operations included a write-down of $8.1 million of assets, primarily goodwill, to net realizable value, operating losses of $3.0 million, severance and related benefits of $0.3 million and other related costs and expenses including the closure of facilities of $0.6 million.

Extraordinary Gain on Conversion of Convertible Notes

On June 12, 2001, we completed the issuance of 142,071 shares of Class A common stock in exchange for the cancellation of $2,531,250 principal amount of 10% Senior Convertible Notes. The above exchange transaction had been accounted for in accordance with Financial Accounting Standards Board Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings." As a result of these exchanges, we recorded a $1.1 million extraordinary gain on the exchange of convertible notes during the three months ended June 30, 2001. (See also Note 6.)

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Six months ended June 30, 2002 and 2001

Revenues

Revenues for the six months ended June 30, 2002 were $60.3 million, as compared to $53.6 million for the comparable period in 2001. The increase of $6.7 million was due primarily to the inclusion of revenues from the acquisition of STI, including the EasyLink Services business acquired by STI from AT&T Corp., for the full six month period in 2002 as compared to the 2001 period from February 23, 2001, the date of acquisition, to June 30, 2001. The increased revenues were partially reduced by the decrease in advertising revenues of $1.6 million as a result of the sale of our advertising network in March 2001 and the loss of $529,000 in email hosting revenues resulting from the termination of a hosting arrangement related to the sale of our advertising network.

Revenues for the six months ended June 30, 2002 and 2001 consist almost entirely of revenues from providing information exchange services to businesses and are derived from electronic data interchange services or `EDI;" production messaging services; integrated desktop messaging services; boundary and managed email services; and other services largely consisting of legacy real time fax services. In the 2001 period, $1.6 million or 3% of revenues were from the advertising network.

Cost of Revenues

Cost of revenues for the six months ended June 30, 2002 decreased to $30.2 million as compared to $40.3 million for the comparable period in 2001. The decreased cost resulted in a gross profit of 50% in the 2002 period, representing an improvement of 25.1 percentage points over the comparable 2001 period results of 24.9%. Cost of revenues consists primarily of costs incurred in the delivery and support of our services, including depreciation of equipment used in our computer systems, the cost of telecommunications services including local access charges, leased network backbone circuit costs and long distance domestic and international termination charges, and personnel costs associated with our systems, databases and graphics. The reduction in cost, both in total amount and as a percentage of revenues, and the increase in gross profit percentage, is attributable to the increase in higher margin revenues from the STI acquisition, including the EasyLink Services business, cost reduction programs implemented throughout 2001; $2.1 million of reduced charges for network support under the TSA; $5.4 million in lower depreciation charges; negotiated cost reductions in certain telecommunications services; and the elimination of advertising costs associated with our advertising network business that was sold on March 30, 2001.

Sales and Marketing Expenses

Sales and marketing expenses were $10.6 million for the six months ended June 30, 2002 as compared to $18.2 million for the comparable period in 2001. Included in this category are costs related to salaries and commissions for sales, marketing, and business development personnel. Also included are costs associated with various advertising campaigns to build our brand. The $7.6 million decrease was primarily due to reductions in sales and marketing efforts associated with our advertising network business that was sold on March 31, 2001. An amendment to the CNET, Snap and NBC agreement signed during the second quarter of 1999 eliminated the monthly issuance of shares, but required us to issue the remaining shares under the contract simultaneously with our initial public offering in June 1999. The value of these shares ($18.1 million) was being amortized over the subsequent two-year period. We recorded approximately $2.3 million of amortization expense in connection with the issuance of these shares during the six months ended June 30, 2001.

General and Administrative Expenses

General and administrative expenses were $14.4 million during the six months ended June 30, 2002 as compared to $21.2 million during the comparable period of 2001. The $6.8 million decrease was attributable to a $2.5 million reduction in charges under the TSA as support for these functions from AT&T ceased in 2001, a decrease in personnel and related costs, decreased facilities costs, the reversal of $0.6 million of prior years' accrued employee cash bonuses in 2002 and a decrease of $0.6 million in our provision for doubtful accounts over the comparable period. General and administrative expenses consist primarily of compensation and other employee costs for corporate office functions, customer support and customer billing operations. These costs also include our provision for doubtful accounts and corporate wide overhead expenses.

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 $3.3 million for the six months ended June 30, 2002 as compared to $5.7 million in comparable period of 2001. The prior year's costs were significantly higher as the first quarter of 2001 included the development expenses related to our advertising network, which we sold on March 31, 2001, and we utilized consultants to a greater degree during 2001.

Amortization of Goodwill and Other Intangible Assets

Amortization of intangibles of $3.4 million for the three months ended June 30, 2002 decreased from $25.1 million for the comparable period of 2001. The primary reason for the decrease was the adoption of SFAS No. 142 - "Goodwill and Other Intangible Assets." The standard eliminates goodwill amortization upon adoption and requires an initial assessment for goodwill impairment within six months of adoption and at least annually thereafter. For the six months ended June 30, 2001, goodwill amortization from continuing operations was $21.7 million and $3.7 million from discontinued operations.

In connection with the adoption of Statement 142 on January 1, 2002, the Company reclassified $3.6 million in net book value associated with assembled workforce to goodwill.

Restructuring Charges

During the six months ended June 30, 2001, restructuring charges of $25.3 million were recorded by the Company in accordance with the provisions of EITF 94-3, and Staff Accounting Bulletin 100. The Company's restructuring initiatives are related to our strategic decisions to exit the consumer messaging business and to focus on the Company's messaging business. No restructuring charges have been recorded in 2002.

Impairment Charges

The Company's management performs on-going business reviews and, based on quantitative and qualitative measures, assesses the need to record impairment losses on long-lived assets used in operations when impairment indicators are present.

Where impairment indicators were identified, management determined the amount of the impairment charge by comparing the carrying value of goodwill and other long-lived assets to their fair values. These evaluations of impairments are based upon an achievement of business plan objectives and milestones of each business, the fair value of each ownership interest relative to its carrying value, the financial condition and prospects of the business and other relevant factors. The business plan objectives and milestones that are considered include among others, those related to financial performance, such as achievement of planned financial results and completion of capital raising activities, if any, and those that are not primarily financial in nature, such as launching or enhancements of a web site or product, the hiring of key employees, and the number of messages generated by a customer. Management determines fair value based on the market approach, which includes analysis of market price multiples of companies engaged in lines of business similar to the business being evaluated. The market price multiples are selected and applied to the business based on the relative performance, future prospects and risk profile of the business in comparison to the guideline companies. As a result, during management's 2001 quarterly review of the value and periods of amortization of both goodwill and other long-lived assets, it was determined that the carrying value of goodwill and certain other intangible assets were not fully recoverable.

The e-mail addresses for many of the domains were sold to Net2Phone as part of the sale of the advertising network. As a result of this and eroding market conditions, management determined that the carrying value of many of these domains were impaired and recorded an impairment charge of $3.6 million during the three months ended March 31, 2001 to reduce the carrying value of these assets to anticipated values to be received from a third party.

Loss on Sale of Business

In 2001 we recorded a $2.3 million loss attributable to the sale of our advertising network, which was sold on March 30, 2001.

Loss From Operations:

Loss from operations for the six months ended June 30, 2002 of $1.6 million was favorably impacted by a net release of $1.7 million in accrued expenses during the second quarter resulting from the decision not to pay prior year cash bonuses in 2002.

Other Income (Expense), Net

Interest income for the six months ended June 30, 2002 was $147,000 as compared to $363,000 during the comparable period of 2001. The decrease was due to lower cash balances and lower interest rates on temporary investments.

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Interest expense was $2.5 million for the six months ended June 30, 2002 as compared to $5.6 million in the comparable period of 2001. The decrease was primarily due to reductions in the total debt balances outstanding during the 2002 period as compared to the same period in 2001 as a result of the exchange transactions and debt restructuring completed in 2001 as previously described.

As indicated above, management performs on-going business reviews and, based on quantitative and qualitative measures, assesses the need to record impairment losses on its investments when impairment indicators are present. Management determined that the decline in value of its cost investment in BulletN.net was other-than-temporary and recorded an impairment charge of $2.6 million for the quarter ended March 31, 2001. Additionally we recorded an impairment charge of $59,000 relating to our investment in 3Cube, as management determined that the decline in the value of its investment was other-than-temporary. During the second quarter of 2001, we recorded additional impairment charges of approximately $7.5 million as management determined that the carrying value of certain cost investments were permanently impaired.

Discontinued Operations

The loss from discontinued operations includes the results and other costs related to the Company's discontinued WORLD.com business, including its subsidiaries, Asia.com, Inc. and India.com, Inc. During the six months ended June 30, 2002, there were no losses incurred from the discontinued operations. During the six months ended June 30, 2001, the $66 million loss from discontinued operations included a write-down of $52.6 million of assets, primarily goodwill, to net realizable value, operating losses of $11.3 million, severance and related benefits of $1.3 million and other related costs and expenses including the closure of facilities of $0.8 million.

Extraordinary Gains on Conversion of Convertible Notes

On March 28, 2001, we completed the issuance of $23,840,250 principal amount of 10% Senior Convertible Notes ("Exchange Notes") in exchange for the cancellation of $75,905,000 principal amount of 7% Convertible Subordinated Notes (the "Notes"). In addition, on June 12, 2001, we completed the issuance of 142,071 shares of Class A common stock in exchange for the cancellation of $2,531,250 principal amount of 10% Senior Convertible Notes. The above exchange transactions have been accounted for in accordance with Financial Accounting Standards Board Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings." As a result of these exchanges, we recorded $40.4 million of extraordinary gains on the exchange of convertible notes during the six months ended June 30, 2001. (See also Note 6.)

Liquidity and Capital Resources

Since our inception, we have obtained financing through private placements of convertible debt and equity securities, equipment leases, our initial public offering including the exercise of the over-allotment option and through a convertible debt offering.

On January 8, 2001, we received approximately $10.26 million relating to our issuing 10% Senior Convertible Notes due on January 8, 2006.

On February 14, 2001, we announced that we entered into a bridge funding and amendment agreement that would allow us to borrow up to $5 million from our majority-owned subsidiary India.com pursuant to a bridge note. As of June 30, 2001, we borrowed $5 million against this agreement. In July 2001, the holders of India.com preferred stock agreed to exchange India.com preferred stock for 1,420,400 shares of the Company's Class A common stock. This agreement resulted in the elimination of the notes and warrants that EasyLink committed to issue for the draw downs and commitment under the bridge funding agreement. The exchange of the Company's Class A common stock for the India.com preferred stock was completed on October 17, 2001.

On March 19, 2001, we completed the issuance of $3.9 million principal amount of 10% Senior Convertible Notes due January 8, 2006.

On March 20, 2001, we completed the private placement of 3,000,000 shares of our Class A common stock to a private investor for an aggregate price of $3 million.

During the first six months of 2001, we took additional actions to further reduce our cash burn. These actions included additional staff layoffs in some of our businesses as well as the completion of the sale of our advertising business. Accordingly, we incurred additional restructuring and impairment charges to reduce the value of certain of our acquisitions and investments. This is due to the continuous and prolonged decline in valuations of U.S. businesses, including revenue multiples, as well as the lack of capital funding available to businesses in order to fund their operating losses, and continual investments that their management teams believe are necessary to sustain operations. Such charges amounted to $25.3 million. Most of these charges covered additional write-downs of tangible and intangible assets.

On March 28, 2001, we completed the issuance of an aggregate of $23,840,250 principal amount of senior convertible notes in exchange for the cancellation of $75,905,000 principal amount of 7% Convertible Subordinated Notes. $2,531,250 of the Senior Convertible Notes is subject to cancellation in exchange for the issuance of 1,420,714 shares of Class A common stock, subject to satisfaction of certain conditions. The reduction in outstanding indebtedness, together with the ability to pay up to one-half of interest on the Senior Convertible Notes in shares of Class A common stock, has reduced our cash interest requirements.

On March 30, 2001, we sold our advertising network to Net2Phone, Inc. who paid us $3 million in cash at the closing and paid us an additional $500,000 in April 2001 based upon the achievement of certain milestones by us. In connection with the sale the parties entered into a hosting agreement whereby we would receive payments for hosting the consumer mailboxes for a minimum of one year. During the second quarter of 2001, the Company completed the migration of the hosting of these consumer mailboxes to a third party provider who is paid for this service. The hosting agreement was terminated as of September 30, 2001.
On May 3, 2001, our majority owned subsidiary Asia.com, Inc. sold its business for $1.5 million in cash and the assumption of $1.5 million of liabilities.

Net cash provided by operating activities was $1.1 million for the six months ended June 30, 2002. In the comparable period in 2001 net cash provided by operating activities was $5.7 million, however this included $12.5 million in proceeds from sales and maturities of marketable securities.

Net cash used in investing activities was $1.5 million for the six months ended June 30, 2002 and $13.5 million for the six months ended June 30, 2001. In 2002, cash was used for the purchases of equipment. In 2001, net cash used in investing activities consisted of $15.9 million for acquisitions and $2.3 million for purchases of intangible assets and equipment, net of $4.6 million in proceeds received from the sale of the ad network and eLong.com, Inc.

Net cash used in financing activities was $0.5 million for the six months ended June 30, 2002 as compared to cash provided by these activities of $11.3 million for the six months ended June 30, 2001. During the first six months of 2002, we made $0.3 million in payments against capital lease obligations and $0.4 million in interest payments on restructured notes. During the first six months of 2001, we received $14.1 million from the issuance of senior convertible notes and $3.2 million from the issuance of our Class A Common Stock offset by $4.2 million in payments under capital lease obligations and $1.9 million of principal payments on notes payable.

At June 30, 2002, we had $12 million of cash and cash equivalents. Our principal commitments consist of $24.1 million in subordinated convertible notes due in 2005; $36.0 million in senior convertible notes due in 2006; $19.1 million of 12% restructured notes payable due in quarterly installments beginning in June 2003; and obligations under capital leases and commitments for telecommunications services. For the years ended December 31, 2001 and 2000, we received a report from our independent accountants containing an explanatory paragraph stating that we suffered recurring losses from operations since inception and have a working capital deficiency that raise substantial doubt about our ability to continue as a going concern. We incurred a net loss of $3.9 million during the six months ended June 30, 2002, and have an accumulated deficit of $517.4 million as of June 30, 2002. We believe that the Company may need additional financing to meet cash requirements for its operations and to service its debt and other obligations. However, if we are unable to raise additional financing or generate sufficient cash flow, we may be unable to continue as a going concern.

Our unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern. We believe our ability to continue as a going concern is dependent upon our ability to generate sufficient cash flow to meet our obligations on a timely basis, to obtain additional financing or refinancing as may be required, and ultimately to achieve profitable operations. Management is continuing the process of further reducing operating costs and increasing its sales efforts. The Company expects that it will also seek to enter into additional debt restructuring arrangements with holders of its debt obligations from time to time in the future. These arrangements may include, among others, rescheduling of payment due dates and exchange or conversion of debt obligations into equity. There can be no assurance that the Company will be successful in these efforts.

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

Recent Accounting Pronouncements

In June 2001, Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("Statement 143") was issued. Statement 143 addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated retirement costs that result from the acquisition, construction, or development and normal operation of a long-lived asset. Upon initial recognition of a liability for an asset retirement obligation, Statement 143 requires an increase in the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated to expense using a systematic and rational method over the asset's useful life. Statement 143 is effective for fiscal years beginning after June 15, 2002. The adoption of this statement is not expected to have a material impact on the Company's financial position or results of operations.

In August 2001, Statement of Financial Accounting Standards 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("Statement 144"), which supersedes both Statement 121, and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("Opinion 30"), for the disposal of a segment of a business (as previously defined in that Opinion). Statement 144 retains the fundamental provisions in Statement 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with Statement 121. For example, Statement 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. Statement 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike Statement 121, an impairment assessment under Statement 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under Statement 142, Goodwill and Other Intangible Assets.

The Company adopted Statement 144 effective January 1, 2002. The adoption of Statement 144 for long-lived assets held for use did not have an impact on the Company's financial position and results of operations because the impairment assessment under Statement 144 is largely unchanged from Statement 121 and the provisions of the Statement for assets held for sale or other disposals generally are required to be applied prospectively after the adoption date to newly initiated disposal activities.

In April 2002, Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("Statement 145") was issued. FASB Statement No. 4 required all gains and losses from the extinguishment of debt to be reported as extraordinary items and Statement No. 64 related to the same matter. Statement 145 requires gains and losses from certain debt extinguishment to not be reported as extraordinary items when the use of debt extinguishment is part of the risk management strategy. Statement 44 was issued to establish transitional requirements for motor carriers relative to intangible assets. Those transitions are completed, therefore Statement 44 is no longer necessary. Statement 145 also amends Statement No. 13 requiring sale-leaseback accounting for certain lease modifications. Statement 145 is effective for fiscal years beginning after May 15, 2002. The provisions relating to sale-leaseback are effective for transactions after May 15, 2002. The adoption of Statement 145 is not expected to have a material impact on the Company's financial position or results of operations.

In July 2002, Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("Statement 146") was issued. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue ("EITF") 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principle difference between Statement 146 and EITF 94-3 relates to the timing of liability recognition. Under Statement 146, a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. The provisions of Statement 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this statement is not expected to have a material impact on the Company's financial position or results of operations.

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

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

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

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

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

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

We have only a limited operating history upon which you can evaluate our business and our prospects. We have offered a commercial email service since 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 additional transaction delivery services and related transaction management services that automate more components of our customers' business processes. Our success will depend in part upon our ability to maintain or expand our sales of transaction delivery services such as EDI, production messaging and integrated desktop messaging to enterprises, our ability to successfully develop transaction management services, the development of a viable market for fee-based transaction delivery and transaction management services on an outsourced basis and our ability to compete successfully in those markets. For the reasons discussed in more detail below, there are substantial obstacles to our achieving and sustaining profitability.

We have incurred losses since inception.

We have not achieved profitability in any period, and we may not be able to achieve or sustain profitability. We incurred a net loss of $3.9 million for the six months ended June 30, 2002 and $206.3 million for the year ended December 31, 2001. We had an accumulated deficit of $517.4 million as of June 30, 2002. We intend to expand our sales and marketing operations, upgrade and enhance our technology, continue our international expansion, and improve and expand our management information and other internal systems. We intend to continue to make strategic acquisitions and investments, which may result in significant amortization of intangibles and other expenses or a later impairment charge arising out of the write-off of goodwill booked as a result of such acquisitions or investments. We are making these expenditures in anticipation of higher revenues, but there will be a delay in realizing higher revenues even if we are successful. If we do not succeed in substantially increasing our revenues or integrating the EasyLink Services and Swift businesses with our historical business, our losses may continue.

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

We may need to raise additional capital in the future.

See Part II. 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 for the year ended December 31, 2001 and subsequent reports filed with the Securities and Exchange Commission. At June 30, 2002, we had $12 million of cash, cash equivalents and marketable securities. Our principal commitments consist of subordinated convertible notes, senior convertible notes, notes payable, obligations under capital leases, accounts payable and other current obligations, commitments for capital expenditures and commitments for telecommunications services. For each of the years ended December 31, 2001 and 2000, we received a report from our independent accountants containing an explanatory paragraph stating that we suffered recurring losses from operations since inception and have a working capital deficiency that raise substantial doubt about our ability to continue as a going concern. We may need additional financing to invest in the growth of our business and to pay other obligations, and the availability of such financing when needed, on terms acceptable to us, or at all, is uncertain. See "Risk Factors - We May Be Unable to Pay Debt Service on Our Indebtedness for Money Borrowed and Other Obligations." 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 dilution of their ownership interest. The amount of dilution resulting from issuance of additional shares of Class A common stock and securities convertible into Class A common stock and the potential dilution that may result from future issuances has significantly increased in light of the decline in our stock price. Moreover, we could issue preferred stock that has rights senior to those of the Class A common stock. Some of our stockholders have registration rights that could interfere with our ability to raise needed capital. If we raise funds by issuing debt, our lenders may place limitations on our operations, including our ability to pay dividends.

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

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

o inability to raise the required capital;

o difficulty in assimilating the acquired operations and personnel;

o inability to retain any acquired customers;

o disruption of our ongoing business;

o the need for additional capital to fund losses of acquired businesses;

o inability to successfully incorporate acquired technology into our service offerings and maintain uniform standards, controls, procedures and policies; and

o lack of the necessary experience to enter new markets.

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

We may be unable to successfully complete the integration of the EasyLink Services Business acquired from AT&T.

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

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

We cannot assure you that we will be able to successfully transition the remaining EasyLink Services network and other operations from AT&T to us, or successfully integrate them into our operations, in a timely manner or without incurring substantial unforeseen expense. Even if successfully transitioned and integrated, 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 transition, integrate or operate the network and operations, or to retain customers, of the EasyLink Services business will result in a material adverse effect on our business, results of operations and financial condition.

We have incurred significant indebtedness for money borrowed.

As of June 30, 2002, we had approximately $95.1 million of outstanding indebtedness for borrowed money, including $13.2 million of capitalized future interest and capital leases. We may incur substantial additional indebtedness in the future. The level of our indebtedness, among other things, could (1) make it difficult for us to make payments on our indebtedness, (2) make it difficult to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes, (3) limit our flexibility in planning for, or reacting to changes in, our business, and (4) make us more vulnerable in the event of a downturn in our business.

We may be unable to pay debt service on our indebtedness for money borrowed and other obligations.

We had an operating loss and negative cash flow for the six months ended June 30, 2002. In addition, we have a substantial amount of outstanding accounts payable and other obligations. Accordingly, cash generated by our operations would have been insufficient to pay the amount of interest payable annually on our outstanding indebtedness or to pay our other obligations. We cannot assure you that we will be able to pay interest and other amounts due on our outstanding indebtedness, or our other obligations, on the scheduled dates or at all. If our cash flow and cash balances are inadequate to meet our obligations, we could face substantial liquidity problems. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we otherwise fail to comply with any covenants in our indebtedness, we would be in default under these obligations, which would permit these lenders to accelerate the maturity of the obligations and could cause defaults under our indebtedness. Any such default could have a material adverse effect on our business, results of operations and financial condition. We cannot assure you that we would be able to repay amounts due on our indebtedness if payment of the indebtedness were accelerated following the occurrence of an event of default under, or certain other events specified in, the agreements governing our outstanding indebtedness and capital leases, including any deemed sale of all or substantially all of our assets.

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

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

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

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

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

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

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

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

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

- increases or decreases in the number of transactions generated by our customers (such as insurance claims, trade and travel confirmations, purchase orders, invoices, shipping notices, funds transfers, among others), which is affected by factors that affect specific customers, the respective industries in which our customers conduct business and the economy generally;
- non-cash charges associated with repriced stock options, if our stock price rises above $16.90;
- system outages, delays in obtaining new equipment or problems with planned upgrades;
- disruption or impairment of the Internet;
- demand for outsourced transaction delivery and transaction management services;
- attracting and retaining customers and maintaining customer satisfaction;
- introduction of new or enhanced services by us or our competitors;
- changes in our pricing policy or that of our competitors;
- changes in governmental regulation of the Internet and transaction delivery and transaction management services in particular; and
- general economic and market conditions.

Other such factors in our non-core assets include:

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

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

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

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

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

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

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

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

Our rapid expansion has strained our existing resources, and if we are not able to manage our growth effectively, our business and operating results will suffer.

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

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

Our future success depends to a significant extent on the continued service of our key technical, sales and senior management personnel, but they have no contractual obligation to remain with us. In particular, our success depends on the continued service of Gerald Gorman, our Chairman, Thomas Murawski, our

President and Chief Executive Officer, George Abi Zeid, our President-International Operations, and Debra McClister, our Executive Vice President and Chief Financial Officer. The loss of the services of Messrs. Gorman, Murawski, Abi Zeid or of Ms. McClister, or several other key employees, would impede the operation and growth of our business.

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

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

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

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

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

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

Our computer systems may fail and interrupt our service.

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

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

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

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

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

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

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

We are dependent on licensed technology.

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

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

Our business depends on the effectiveness of the Internet as a means of transmitting data. The recent growth in the use of the Internet has caused frequent interruptions and delays in accessing and transmitting data over the Internet. Any deterioration in the performance of the Internet as a whole could undermine the benefits of our services. Therefore, our success depends on improvements being made to the entire Internet infrastructure to alleviate overloading and congestion. We also depend on telecommunications network suppliers such as AT&T Corp. and WorldCom for a variety of telecommunications and Internet services. Pending the transition of the network and operations for the EasyLink Services business acquired from AT&T, we are dependent on the services being provided to us under our Transition Services Agreement with AT&T. See "Risk Factors - We May Be Unable to Successfully Integrate the EasyLink Services Business Acquired From AT&T" above, "Item 1. Business - Technology" in our Form 10-K and subsequent filings with the Securities and Exchange Commission.

Gerald Gorman and George Abi Zeid collectively held as of July 31, 2002 approximately 49.4% of the total outstanding voting power of EasyLink and will likely be able to prevent a change of control.

Gerald Gorman, our Chairman, held as of July 31, 2002 Class A and Class B common stock representing approximately 39.7% of the voting power of our outstanding common stock. Each share of Class B common stock entitles the holder to 10 votes on any matter submitted to the stockholders. George Abi Zeid, our President-International Operations and Director, beneficially owned as of July 31, 2002 Class A common stock representing approximately 9.7% of the voting power of our outstanding common stock and, after giving effect to the issuance of shares issuable upon conversion or exercise of convertible securities and warrants held by Mr. Abi Zeid, approximately 11.5% of such voting power. Based on their voting power as of July 31, 2002, Mr. Gorman and Mr. Abi Zeid will effectively be able to determine the outcome of all matters requiring stockholder approval, including the election of directors, amendment of our charter and approval of significant corporate transactions. Mr. Gorman and Mr. Abi Zeid will likely be in a position to prevent a change in control of EasyLink even if the other stockholders were in favor of the transaction.

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

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

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

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

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

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

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

countries;

- export restrictions, and

- difficulties in enforcing contracts and potentially adverse consequences.

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

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

Moreover, the extent to which existing laws relating to issues such as property ownership, pornography, libel and personal privacy are applicable to the Internet is uncertain. We could face liability for defamation, copyright, patent or trademark infringement and other claims based on the content of messages transmitted over our system. We may also face liability for unsolicited commercial and other email and fax messages sent by users of our services. We do not and cannot screen all the content generated and received by users of our services. Some foreign governments, such as Germany, have enforced laws and regulations related to content distributed over the Internet that are more strict than those currently in place in the United States. We may be subject to legal proceedings and damage claims if we are found to have violated laws relating to email content.

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

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

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

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

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

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

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

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

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

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

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

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 July 31, 2002, we had an aggregate of 16,718,291 shares of Class A and Class B common stock outstanding. As of July 31, 2002 we had options to purchase approximately 2.94 million shares of Class A common stock outstanding. As of July 31, 2002, we had warrants to purchase approximately 1.84 million shares of Class A common stock outstanding. As of July 31, 2002, we had approximately 4.4 million shares of Class A common stock issuable upon conversion of outstanding senior convertible notes and an indeterminate number of additional shares of Class A common stock issuable over five years in payment of interest on such senior notes. In addition, we had 127,151 shares of Class A common stock issuable upon conversion of our remaining outstanding 7% Convertible Subordinated Notes due 2005 at an exercise price of $189.50 per share.

As of July 31, 2002, approximately 11.1 million shares of Class A common stock and Class B common stock were freely tradable, in some cases subject to the volume and manner of sale limitations contained in Rule 144. As of such date, approximately 5.6 million shares of Class A common stock will become available for sale at various later dates upon the expiration of one-year holding periods or upon the expiration of any other applicable restrictions on resale. We are likely to issue large amounts of additional Class A common stock, which may also be sold and which could adversely affect the price of our stock.

As of July 31, 2002, the holders of approximately 6.3 million shares of outstanding Class A common stock, the holders of approximately 1.8 million shares of Class A common stock issuable upon exercise of our outstanding warrants and the holders of approximately 6 million shares of Class A common stock issuable upon conversion of our outstanding senior or subordinated convertible notes and issuable in payment of interest over the first 18 months after the date of issuance on our senior convertible notes, had the right, subject to various conditions, to require us to file registration statements covering their shares, or to include their shares in registration statements that we may file for ourselves or for other stockholders. By exercising their registration rights and selling a large number of shares, these holders could cause the price of the Class A common stock to fall. An undetermined number of these shares have been sold publicly pursuant to Rule 144.

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

Our Class A common stock faces potential delisting from the Nasdaq National Market which could hurt the liquidity of our Class A common stock. We may be unable to comply with the standards for continued listing on the Nasdaq National Market. These standards require, among other things, that our Class A common stock have a minimum bid price of either $1 or $3. Specifically, an issuer will be considered non-compliant with the minimum bid price requirement only if it fails to satisfy the applicable requirement for any 30 consecutive trading day period following January 1, 2002. It would then be afforded a 90 calendar day grace period in which to regain compliance. In addition, the listing standards require that we maintain compliance with various other standards, including market capitalization or total assets and total revenue, number of publicly held shares, which are shares held by persons who are not officers, directors or beneficial owners of 10% of our outstanding shares, and market value of publicly held shares. If we do not comply with the $3 minimum bid price, but we do comply with the $1 minimum bid price, then we must comply with certain other standards, including a $10 million minimum stockholders' equity requirement. The minimum bid price of our stock was below $1 during various periods in the fourth quarter of 2000 and the first quarter of 2001 and was below $1 during the period from March 14, 2001 through January 22, 2002. On January 23, 2002, we effected a ten-for-one reverse stock split. Since the time of our reverse stock split, our stock price was also below $1.00 during the period from July 10, 2002 through July 26, 2002 and from July 30, 2002 through the date of this filing.

No assurance can be given that our stock price will remain above the minimum level required or that we will maintain compliance with all of the other applicable listing standards in the future.

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

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

Our stock price has been volatile since our initial public offering and we expect that it will continue to be volatile. As discussed above, our financial results are difficult to predict and could fluctuate significantly. In addition, the market prices of securities of electronic services companies have been highly volatile. A stock's price is often influenced by rapidly changing perceptions about the future of electronic services or the results of other Internet or technology companies, rather than specific developments relating to the issuer of that particular stock. As a result of volatility in our stock price, a securities class action may be brought against us. Class-action litigation could result in substantial costs and divert our management's attention and resources.

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

On March 30, 2001, we completed the sale of our advertising network business to Net2Phone, Inc. Included in the sale were our rights to provide e-mail-based advertising and permission marketing solutions to advertisers, as well as our rights to provide e-mail services directly to consumers at the www.mail.com Web site and in partnership with other Web sites. In connection with the sale, we entered into a hosting agreement under which we agreed to host or arrange to host the consumer e-mailboxes for Net2Phone for a minimum of one year. During the second quarter of 2001, we completed the migration of the hosting of these consumer mailboxes to a third party provider whom we paid for this service. On November 14, 2001, we entered into an agreement with Net2Phone which terminated the hosting agreement as of September 30, 2001. Net2Phone has subsequently transferred this business to a third party.

Notwithstanding the migration of the consumer mailboxes to the third party provider, the termination of the hosting agreement with Net2Phone and the assignment to Net2Phone of our Web site contracts with third parties, we may nonetheless remain liable for obligations under some of such third party Web site contracts. Accordingly, we may have liability if there is a breach on the part of the third party to which we have migrated the hosting or on the part of Net2Phone or its transferee under the third party Web site agreements that were assigned to them.

PART II: OTHER INFORMATION

Item 1: Legal Proceedings

From time to time the Company has been, and expects to continue to be, subject to legal proceedings and claims in the ordinary course of business. These include claims of alleged infringement of third-party patents, trademarks, copyrights, domain names and other similar proprietary rights; employment claims; and contract claims. These claims include pending claims that some of our services employ technology covered by third party patents. These claims, even if not meritorious, could require the Company to expend significant financial and managerial resources. No assurance can be given as to the outcome of one or more claims of this nature. If an infringement claim were determined in a manner adverse to the Company, the Company may be required to discontinue use of any infringing technology, to pay damages and/or to pay ongoing license fees which would increase the Company's costs of providing the service.

The Company has also received notices or claims from certain third parties for disputed and unpaid accounts payable. The Company believes that it has appropriately reserved for the amount of any liability that may arise out of these matters, and management believes that these matters will be resolved without a material effect on the Company's financial position or results of operations.

Item 2: Changes in Securities and Use of Proceeds

Recent Sales of Unregistered Securities

On April 15, May 15, and June 15, 2002, we issued 14,387, 29,398 and 31,879 shares, respectively, of Class A common stock to employees at an exercise price of $2.01, $1.77 and $1.30, respectively, per share representing the Company's matching contribution to its 401(k) plan.

On June 1, 2002, we issued 133,600 shares of Class A common stock valued at approximately $0.2 million as payment for interest in lieu of cash.

On June 7, 2002, we issued 7,716 shares of Class A common stock valued at approximately $11,000 in connection with a severance agreement.

On June 21, 2002, we issued 106,534 shares of Class A common stock valued at approximately $0.1 million in settlement of a vendor obligation.

The issuance of shares representing matching contributions to the Company's 401(k) plan was not subject to the registration requirements of the Securities Act of 1933, as amended (the "Act"), because the issuance of the shares was not voluntary and contributory on the part of employees. The other issuances were exempt from such registration requirements based on the exemption provided under Section 4(2)of the Act. Such shares were issued in transactions not involving a public offering to investors capable of evaluating the merits and risks of the investment and not in need of the protections afforded by registration under the Act.

Item 4: Submission of Matters to a Vote of Security Holders

(a) The Annual Meeting of Shareholders was held on May 23, 2002.

(b) Each of the persons named in the Proxy Statement as a nominee for Director was elected.

(c) The following are the voting results on each of the matters that were submitted to the shareholders:

	For	Against	Withheld or Abstain
Election of Directors			
Gerald Gorman.................	18,066,934	55,385	7,133,868
Thomas Murawski...............	18,066,934	55,385	7,133,868
George Abi Zeid...............	18,066,934	55,385	7,133,868
William Donaldson.............	18,066,934	55,385	7,133,868

Stephen Duff..................	18,066,934	55,385	7,133,868
Stephen Ketchum...............	18,066,934	55,385	7,133,868
Jack Kuehler..................	18,066,934	55,385	7,133,868

Resolutions

To approve the EasyLink Services Corporation 2002 stock option plan...	14,942,146	157,528	10,156,513

The text of the matters referred to under this Item 4 is set forth in the Proxy Statement dated April 23, 2002 previously filed with the Commission and incorporated herein by reference.

Item 6: Exhibits and Reports on Form 8-K

The following exhibits are filed as part of this report:

(10) EasyLink Services Corporation 2002 Stock Option Plan (incorporated by reference to Appendix A to Definitive Proxy Statement of EasyLink Services Corporation filed April 23, 2002).

Reports on Form 8-K - EasyLink Services Corporation filed the following reports on Form 8-K during the three months ended June 30, 2002:

Report on Form 8-K filed on May 24, 2002 announcing that the Company's Chief Executive Officer, Thomas Murawski, will assume the additional office of President, replacing Brad Schrader, effective as of May 31, 2002.

ITEM 7

SIGNATURES

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

EasyLink Services Corporation

/s/ DEBRA L. MCCLISTER

Executive Vice President and
Chief Financial Officer

August 14, 2002

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Exhibits

(10) EasyLink Services Corporation 2002 Stock Option Plan (incorporated by reference to Appendix A to Definitive Proxy Statement of EasyLink Services Corporation filed April 23, 2002).

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