

Lance J.M. Steinhart, P.C.

Attorney At Law
1720 Windward Concourse
Suite 250
Alpharetta, Georgia 30005

Also Admitted in New York
and Maryland

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Email: lsteinhart@telecomcounsel.com

January 5, 2005

VIA OVERNIGHT DELIVERY

Mr. Dale Roberts
Chief ALJ and Executive Secretary
Missouri Public Service Commission
200 Madison Street, Suite 100
Jefferson City, MO 65102

FILED

JAN 06 2005

**Missouri Public
Service Commission**

Re: Acceris Communications Corp. – LOCAL EXCHANGE

Dear Mr. Roberts:

I hereby seek to appear in Acceris Communications Corp.'s Application for Certificate of Service Authority to Provide Local Telecommunications Services Within the State of Missouri.

Enclosed please find an original and eight (8) copies of the Acknowledgement Receipt of \$100.00 as required by Rule 6.01(m) for myself from the Clerk of the Supreme Court along with the Application for Certificate of Service Authority to Provide Local Telecommunications Services Within the State of Missouri.

I have also enclosed an extra copy of this letter to be date stamped and returned to me in the enclosed, self-addressed, postage prepaid envelope. If you have any questions or if I may provide you with any additional information, please do not hesitate to contact me.

Please note that this Application is being submitted by myself and Judith A. Rau, Esq., Missouri Counsel, Bar # 24856.

Respectfully submitted,

Lance J.M. Steinhart
GA Bar No. 678222

Attorney for Acceris Communications Corp.

Enclosures

cc: David Silverman
Michael Dandino, Office of Public Counsel
General Counsel, Missouri Public Service Commission

THOMAS F. SIMON
CLERK



**CLERK OF THE SUPREME COURT
STATE OF MISSOURI
POST OFFICE BOX 150
JEFFERSON CITY, MISSOURI
65102**

TELEPHONE
(573) 751-4144

FILED

January 3, 2005

JAN 06 2005

Missouri Public
Service Commission

*This will hereby acknowledge receipt of \$100 as required
by Rule 6.01(m) for Lance J.M. Steinhart, appearing in Acceris
Communications Corp.'s Application for Certificate of Service
Authority to Provide Local Exchange Telecommunications
Services Within the State of Missouri, before the Public Service
Commission, State of Missouri.*

A handwritten signature in black ink, appearing to read "Thomas F. Simon", written over a horizontal line.

Thomas F. Simon, Clerk

FILED

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

JAN 06 2005

In the matter of the application	)	Missouri Public
of Acceris Communications Corp.	)	Service Commission
	)	
for a certificate of service authority to	)	Case No.
provide resold and facilities-based/UNE-P	)	
Basic Local Telecommunications Services	)	
in Portions of the State of Missouri and	)	
to Classify Such Services and the Company	)	
as Competitive	)	

APPLICATION

Acceris Communications Corp. ("Applicant" or "Acceris"), a Delaware Corporation, files this verified application respectfully requesting that the Missouri Public Service Commission ("Commission") issue an order that:

- (a) grants Applicant a Certificate of Service Authority to provide resold and facilities-based/UNE-P Basic Local Telecommunications Services in Portions of the State of Missouri pursuant to Sections 392.455 and 392.420 - .44055 of the Revised Statutes of Missouri (RSMo) 1994 and Sections 392.410 and .450, RSMo Supp. 1996.
- (b) grants competitive status to Applicant pursuant to Section 392.361 RSMo Supp 1996., and classifies the Applicant's services as competitive.
- (c) waives certain Commission rules and statutory provisions pursuant to Section 392.420, RSMo Cum. Supp. 1996.

In support of its request, Applicant states:

1. The legal name and principal office or place of business of the Applicant are:

Acceris Communications Corp.

9775 Businesspark Avenue

San Diego, California 92131

(800) 576-7775 (Phone)

(858) 566-6523 (Fax)

A copy of Applicant's Certificate of Incorporation, and certificate of authority from the Missouri Secretary of State to transact business in Missouri are attached hereto as Exhibit I.

2. The name and address of Applicant's in-state attorney is:

Judith A. Rau, Esq.

Rau & Rau

119 E. Mill Street

Waterloo, Illinois 62298

3. Applicant proposes to provide resold and facilities-based/UNE-P basic local telecommunications service as a separate and distinct service within portions of the State of Missouri. Applicant is willing to comply with all applicable Commission rules and is willing to meet all relevant service standards, including, but not limited to, billing, quality of service and tariff filing and maintenance. Applicant proposes to provide services to prospective customers in exchanges currently served by Southwestern Bell Telephone Company, United Telephone Company of Missouri d/b/a Sprint, and CenturyTel as set forth in the list of exchanges attached hereto as Exhibit II. Applicant will give consideration to equitable access for all Missourians, regardless of where they might reside or their income, to affordable telecommunications services in the proposed service area as set forth in Exhibit II, in accordance with applicable law.

When it initiates service in Missouri, Acceris Communications Corp., (Acceris) proposes to offer resold local exchange services and local services utilizing the UNE-P platform. Such services will be provided by utilizing the facilities of incumbent local exchange carriers ("LECs"), as well as unbundled network elements. Initially, the services Acceris intends to offer are likely to be those local exchange telecommunications services offered by incumbent local exchange carriers in the proposed service area. Acceris intends to provide local exchange services that may include but are not limited to the following:

- * Basic Residential Exchange Services
- * Residential Custom and Class Features (call waiting, caller ID, call forwarding, call blocking, speed calling, etc.)
- * Basic Business Exchange Services
- * Business Customer Calling and Class Features
- * Adjunct Provided Features (voice messaging, etc.)
- * Business and Residential Ancillary Services (911, E911, 411, Relay Service, directory listing, directory assistance, etc.)
- * Centrex
- * DSL and ISDN
- * DID Trunks and Lines
- * Private Lines

Acceris does not initially intend to install any switching

equipment for the provision of local exchange service in the State of Missouri, but may install such equipment in the future.

If Acceris installs facilities in Missouri, it will probably use the following or a similar configuration of equipment: Acceris will provide voice and high speed data services through a combination of the latest technology switching and transport media comprised of the Lucent Technology 5 ESS Generic 13 switch module, ADSL/SDSL transport and Internet service equipment and the latest Optical multiplexer DAC's configurations. The switching system consists of a central processing and control complex capable of interconnection as a peer to the incumbent as well as competitive local exchange companies. The hub portion of the switch will interconnect with the public switched network on Signaling System 7 ("SS7") or Feature Group D ("FGD") facilities. The system's remote module capability will allow properties to be served in a manner that provides the exchange of appropriate signaling, control and calling/caller information to the network in accordance with network standards and specifications. Additionally, these services will be delivered over a combination of delivery mechanisms through incumbent local carriers' unbundled loop network, both copper and fiber and transport networks, as well as via Acceris constructed facilities.

4. Applicant has the experience in the telecommunications industry and the technical and financial resources to provide telecommunications services within Missouri. A brief description

of the qualifications and experience of the key management employees is attached hereto as Exhibit III, along with a description of the Applicant's telecommunications background. A copy of the financial information to demonstrate Applicant's financial ability to provide service is attached hereto as Exhibit IV.

Applicant is authorized to provide and is providing long distance services throughout the United States. Applicant is authorized to provide local exchange service in Alabama, Arkansas, California, Colorado, Delaware, Florida, Idaho, Iowa, Indiana, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Washington, and West Virginia, and is providing such services in Massachusetts, New Jersey, New York and Pennsylvania. Applicant has not been denied the local exchange authority requested herein in any state, nor had its authority revoked in any state.

5. Applicant hereby respectfully requests a temporary waiver of 4 CSR 240-3.510 (1) (C) that requires Applicant to file a draft tariff simultaneously with this application until Applicant has executed interconnection agreements with the incumbent LECs and those agreements have been approved by the Commission. Applicant will file its tariff with an effective date of at least 45 days after filing.

6. Applicant hereby respectfully requests classification as a competitive telecommunications company within the State of Missouri and receive a lesser degree of regulation as permitted by Sections 392.361 and 392.420 RSMo. Applicant also requests that its services be classified as competitive. Applicant believes that its proposed services will be subject to sufficient competition to justify a lesser degree of regulation. Granting of this application will allow greater price and service options for telephone users.

7. Applicant also respectfully requests, pursuant to Section 392.420 RSMo (Cum. Supp. 1992), that the Commission waive the application of the following rules and statutory provisions as it relates to the regulation of Applicant:

Statutes

392.210.2 Establish Uniform System of Accounts for Annual reports
392.240(1) Setting just and reasonable rates
392.270 Ascertain Property values
392.280 Establish Depreciation accounts
392.290 Issuance of securities
392.300.2 Acquisition of stock
392.310 Issuance of stock and debt
392.320 Stock Dividend Payment
392.330 Issuance of securities, debts and notes
392.340 Reorganization(s)

Commission Rules

4 CSR 240-10.020 Depreciation fund income
4 CSR 240-3.550(5)C) File Exchange boundary maps with Commission
4 CSR 240-30.040 Uniform System of Accounts

The above-referenced rules and statutory provisions have been waived to other carriers in prior cases.

8. Applicant, pursuant to Section 386.570, Cum. Supp. 1992, will comply with all applicable Commission rules except those which are specifically waived by the Commission pursuant to a request filed by the Applicant.

9. All inquiries, correspondence, communications, pleadings, notices, orders and decisions relating to this case shall be addressed to:

Lance J.M. Steinhart

Lance J.M. Steinhart, P.C.

1720 Windward Concourse

Suite 250

Alpharetta, Georgia 30005

(770) 232-9200

(770) 232-9208 (Fax)

lsteinhart@telecomcounsel.com (Email)

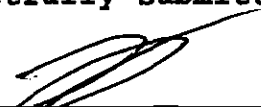
10. The Applicant has no pending actions or final unsatisfied judgments or decisions against it from any state or federal agency or court which involve customer service or rates, which action, judgment or decision has occurred within three (3) years of the date of this application. No Commission annual reports or assessment fees are overdue.

11. Acceris submits the following arguments to demonstrate that the public interest will be served by the approval of this Application:

The grant of a certificate to provide competitive basic local telecommunications services to the Applicant will serve the public interest. The Applicant's presence in the market will expand customer choice for telecommunications service. The increased competition brought by the Applicant to the market will have the effect of improving the quality of telecommunications services in Missouri and decreasing the cost of such services through increased innovation and efficiency. The result will be beneficial to economic development in Missouri. The granting of a certificate to the Applicant will contribute to the availability of reasonably affordable local exchange services in the State of Missouri.

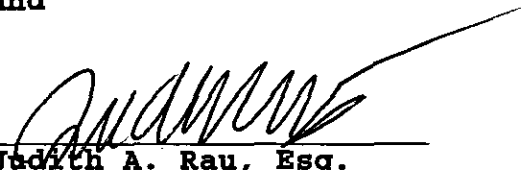
WHEREFORE, Applicant, Acceris Communications Corp., respectfully requests that the Missouri Public Service Commission grant it a certificate of service authority to provide resold and facilities-based/UNE-P Basic Local Telecommunications Services within portions of the State of Missouri. Applicant also respectfully requests classification as a competitive telecommunications company and requests that its services be classified as competitive. In addition, Applicant respectfully requests a waiver of the above-referenced rules and statutory provisions and a temporary waiver of the tariff filing requirement.

Respectfully submitted,



Lance J.M. Steinhart, Esq.
Lance J.M. Steinhart, P.C.
1720 Windward Concourse, Suite 250
Alpharetta, Georgia 30005
(770) 232-9200 (Phone)
(770) 232-9208 (Fax)
lsteinhart@telecomcounsel.com (E-mail)
GA Bar No. 678222

and



Judith A. Rau, Esq.
Rau & Rau
119 E. Mill Street
Waterloo, Illinois 62298
(618) 939-7186
MO Bar No. 24856

Attorneys for Applicant

ATTACHED EXHIBITS

- | | |
|-------------|--|
| Exhibit I | Missouri Secretary of State Authorization
Certificate of Incorporation |
| Exhibit II | List of Exchanges |
| Exhibit III | Executive Officers' Qualifications and Experience
Company's Telecommunications Background |
| Exhibit IV | Financial Information |

Exhibit I
Missouri Secretary of State Authorization
&
Certificate of Incorporation

See Attached

STATE OF MISSOURI



Matt Blunt
Secretary of State

AMENDED CERTIFICATE OF AUTHORITY OF A FOREIGN CORPORATION

WHEREAS,

ACCERIS COMMUNICATIONS CORP.
F00484572

FORMERLY,

WORLDXCHANGE CORP.

incorporated under the laws of the State of Delaware and now in existence and in good standing in said State, and qualified to transact business in Missouri has delivered to me, duly authenticated evidence of an amendment to its Articles of Incorporation as provided by law, and has, in all respects, complied with the requirements of The General and Business Corporation Law of Missouri, governing Amendments to the Articles of Incorporation of Foreign Corporations, and in accordance therewith issue this Certificate of Amendment.

IN TESTIMONY WHEREOF, I have set my hand and imprinted the GREAT SEAL of the State of Missouri, on this, the 18th day of February, 2004.


Secretary of State



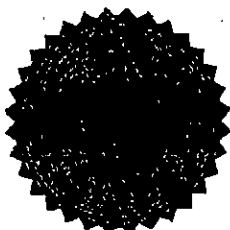
Delaware

PAGE 1

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "WORLDXCHANGE CORP.", CHANGING ITS NAME FROM "WORLDXCHANGE CORP." TO "ACCERIS COMMUNICATIONS CORP.", FILED IN THIS OFFICE ON THE TWENTIETH DAY OF JANUARY, A.D. 2004, AT 5:09 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.



Harriet Smith Windsor
Harriet Smith Windsor, Secretary of State

3234808 8100

AUTHENTICATION: 2883065

040040822

DATE: 01-21-04

State of Delaware
Secretary of State
Division of Corporations
Delivered 05:09 PM 01/20/2004
FILED 05:09 PM 01/20/2004
SRV 040040822 - 3234808 FILE

**CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION**

WorldxChange Corp., (hereinafter called the "corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

1. The name of the corporation is WorldxChange Corp.
2. The Certificate of Incorporation of the corporation is hereby amended by striking out Article FIRST, thereof and by substituting in lieu of said Article the following new Article:

FIRST: The name of the corporation is

Acceris Communications Corp.

3. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 228 and 242 of the General Corporation Law of the State of Delaware.

Executed on this 20th day of January, 2004.

By // Kelly D. Murumets //
Name: Kelly D. Murumets
Title: President

State of Delaware
Office of the Secretary of State

PAGE 1

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "PT-I LONG DISTANCE, INC.", CHANGING ITS NAME FROM "PT-I LONG DISTANCE, INC." TO "WORLDXCHANGE CORP.", FILED IN THIS OFFICE ON THE SEVENTH DAY OF JUNE, A.D. 2001, AT 11 O'CLOCK A.M.



Harriet Smith Windsor
Harriet Smith Windsor, Secretary of State

2224802 8100
AUTHENTICATION: 1218445

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 11:00 AM 06/07/2001
010273295 - 3234808

CERTIFICATE OF AMENDMENT OF CERTIFICATE OF INCORPORATION
OF

PT-I LONG DISTANCE, INC.

PT-I Long Distance, Inc., (hereinafter called the "corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

1. The name of the corporation PT-I Long Distance, Inc.
2. The certificate of incorporation of the corporation is hereby amended by striking out Article First, thereof and by substituting in lieu of said Article the following new Article:
 - 1.) "The name of the corporation is WorldxChange Corp. (the "Corporation")."
3. The amendment of the certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Sections 228 and 242 of the General Corporation Law of the State of Delaware.

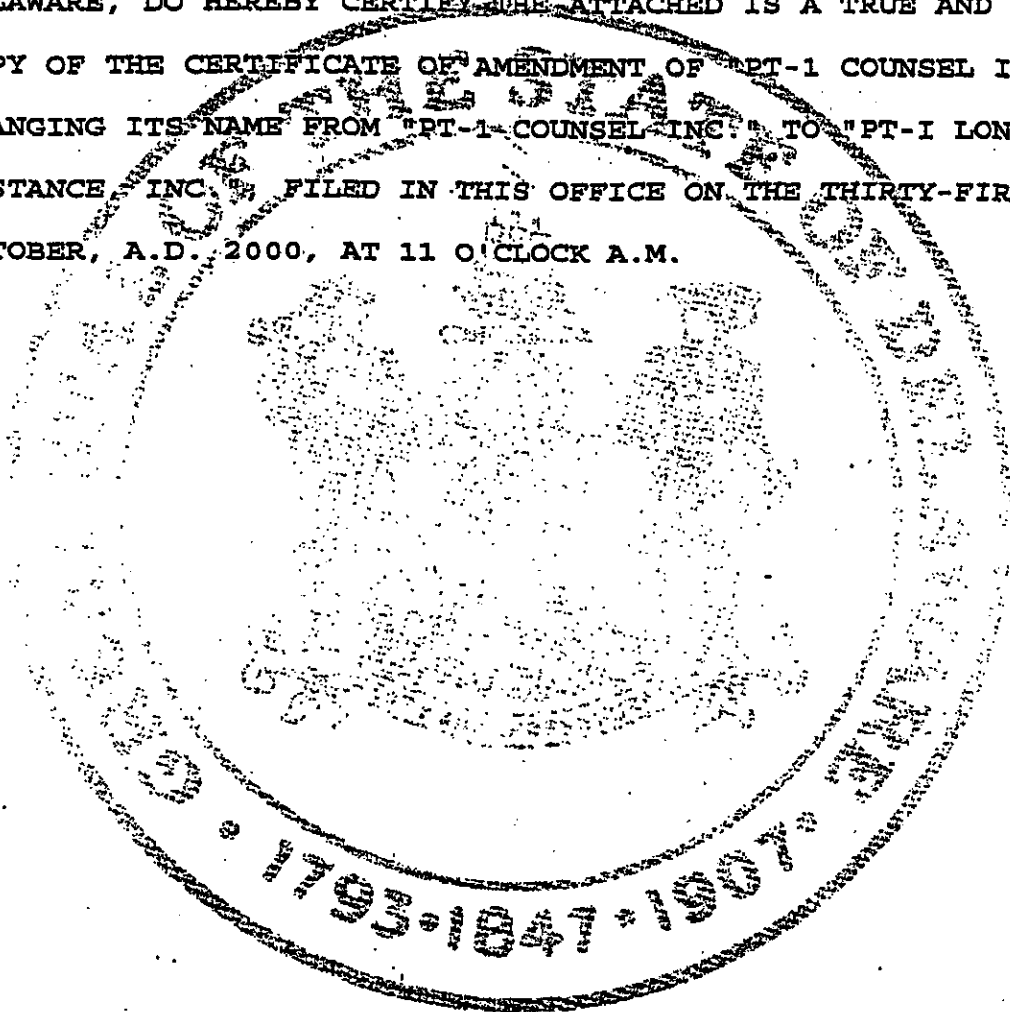
Executed on this 7th day of June, 2001.

/s/ Gary Wasserson
Gary Wasserson
President and Treasurer

State of Delaware
Office of the Secretary of State

PAGE 1

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "PT-1 COUNSEL INC.", CHANGING ITS NAME FROM "PT-1 COUNSEL INC." TO "PT-I LONG DISTANCE INC.", FILED IN THIS OFFICE ON THE THIRTY-FIRST DAY OF OCTOBER, A.D. 2000, AT 11 O'CLOCK A.M.



Harriet Smith Windsor
Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 1218456

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 11:00 AM 10/31/2000
001347051 - 3234808

CERTIFICATE OF AMENDMENT
OF THE CERTIFICATE OF INCORPORATION
OF
PT-1 COUNSEL INC.

UNDER SECTION 241 OF THE GENERAL INCORPORATION LAW OF THE
STATE OF DELAWARE

I, THE UNDERSIGNED, Gary Wasserson, being the President of PT-1 Counsel Inc. hereby certify:

1. The name of the corporation is PT-1 Counsel Inc.
2. The certificate of incorporation of said corporation was filed with the Department of State on the 25th day of May 2000.
3. (a) The certificate of incorporation is amended to change the name of the corporation.

(b) To effect the foregoing, Article 1 relating to the name of the corporation is amended to read as follows:

"The name of the corporation is PT-1 Long Distance, Inc. (the "Corporation")."
4. The amendment was authorized in the following manner:

By unanimous written consent of the board of directors, followed by the unanimous written consent of all of the shareholders in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, I have signed this certificate on the 31st day of October, 2000 and I affirm the statements contained therein as true under penalties of perjury.


Gary Wasserson
President & Chief Executive Officer

**CERTIFICATE OF INCORPORATION
OF
PT-1 COUNSEL INC.**

- 1) The name of the corporation is PT-1 Counsel Inc. (the "Corporation").
- 2) The address of the registered office of the Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the registered agent of the Corporation at such address is The Corporation Trust Company.
- 3) The purposes for which the Corporation is formed are to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.
- 4) The aggregate number of shares which the Corporation shall have authority to issue shall be 1,000 shares of Common Stock, par value \$5.001 per share.
- 5) The name and mailing of the incorporator is as follows:

<u>Name</u>	<u>Address</u>
Daniel Y. Gielchinsky	Wollmuth Maher & Deutsch 500 Fifth Avenue Suite 1200 New York, New York 10110

6) No director shall be personally liable to the Corporation or its stockholders for monetary damages for any breach of fiduciary duty by such director as a director. Notwithstanding the foregoing, a director shall be liable to the extent provided by applicable law, (i) for breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit. No amendment to or repeal of this Article shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment.

7) From time to time any of the provisions of this Certificate of Incorporation may be amended, altered, or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted in the manner and at the time prescribed by said laws, and all rights at any time conferred upon the stockholders of the Corporation by this Certificate of Incorporation are granted subject to the provisions of this Article Seven.

IN WITNESS WHEREOF, the undersigned being the incorporator hereinbefore named executes, signs and acknowledges this Certificate of Incorporation, this 25th day of May, 2000 and affirms the statements contained herein as true under penalty of perjury.



Name: Daniel Y. Gischinsky
Sole Incorporator

Exhibit II
List of Exchanges

See Attached

Southwestern Bell Service Areas:

Adrian	Gideon	Risco
Advance	Glasgow	Rushville
Agency	Grain Valley	St. Marys
Altenburg-Frohna	Gray Summit	San Antonio
Antonia	Hayti	Scott City
Archie	Herculaneum-Pevely	Senath
Argyle	Higbee	Slater
Armstrong	Hillsboro	Smithville
Ash Grove	Holcomb	Springfield
Beaufort	Hornersville	St. Louis
Bell City	Jasper	Stanberry
Benton	Kansas City	Trenton
Billings	Lamar	Tuscumbia
Bismarck	LaMonte	Versailles
Bloomfield	Lancaster	Vienna
Bloomsdale	Leadwood	Walnut Grove
Bowling Green	Lilbourne	Wardell
Brookfield	Linn	Ware
Campbell	Lockwood	Wellsville
Cardwell	Louisiana	Westphalia
Carl Junction	Macks Creek	Wyatt
Carrollton	Malden	
Caruthersville	Marble Hill	
Center	Marceline	
Chaffee	Marionville	
Charleston	Marston	
Clarksville	Meta	
Clever	Montgomery City	
Climax Springs	Mourehouse	
Deering	New Franklin	
DeKalb	New Madrid	
Delta	Oak Ridge	
Downing	Old Appleton	
East Prairie	Oran	
Edina	Patton	
Elsberry	Paynesville	
Essex	Pierce City	
Farley	Pocohontas-New Wells	
Fayette	Portage Des Sioux	
Fisk	Portageville	
Frankford	Puxico	
Freeburg	Qulin	
	Richwoods	

Southwestern Bell Service Areas (Continued):

Bonne Terre
Boonville
Camdenton
Cape Girardeau
Carthage
Cedar Hill
Chesterfield
Chillicothe
DeSoto
Dexter
Eldon
Eureka
Excelsior Springs
Farmington
Fenton
Festus-Crystal City
Flat River
Fredericktown
Fulton
Gravois Mills
Greenwood
Hannibal
Harvester
High Ridge
Imperial
Jackson
Joplin
Kennett
Kirksville
Knob Noster
Lake Ozark-Osage Beach
Manchester
Marshall
Maxville
Mexico
Monett
Moberly
Neosho
Nevada
Pacific
Perryville

Pond
Poplar Bluff
Richmond
St. Charles
St. Clair
St. Joseph
Sedalia
Sikeston
Union
Valley Park
Washington
Webb City

CenturyTel Service Areas:

Alton
Ashland
Augusta
Ava
Belle
Bland
Blue Eye
Bourbon
Bradleyville
Branson
Branson West
Buffalo
Cabool
Cape Fair
Cassville
Caulfield
Cedar Creek
Centralia
Chamois
Clark
Columbia
Conway
Crane
Cross Timbers
Cuba
Dardenne
Defiance
Dora
Elkland
Exeter
Foley
Fordland
Foristell
Forsyth
Gainesville
Galena
Hallsville
Hawk Point
Hermann
Hermitage
High Hill

Highlandville
Holstein
Hurley
Jamestown
Jenkins
Jonesburg
Kimberling City
Koshkonong
Leasburg
Louisburg
Mano
Mansfield
Marshfield
Marthasville
Morrison
Moscow Mills
Mount Sterling
Mountain View
New Melle
Niangua
O'Fallon
Old Monroe
Ozark
Pittsburg
Prairie Home
Preston
Protem
Reeds Spring
Rocheport
Rockaway Beach
Safe
Saint James
Saint Peters
Seymour
Shell Knob
Sparta
Sturgeon
Summersville
Thayer
Theodosia
Thomasville

Troy
Truxton
Urbana
Vichy
Warrenton
Washburn
Wasola
Wentzville
West Plains
Wheatland
Willow Springs
Winfield
Wooldridge
Wright City

Sprint/United Service Areas:

Appleton City
Calhoun
Chilhowee
Dearborn
Fairfax
Holt
King City
Malta Bend
Newburg
Pickering
Strasburg
Tarkio
Wellington

Blackburn
Camden Point
Clarksburg
Deepwater
Green Ridge
Hopkins
Kingsville
Missouri City
Norborne
Sweet Springs

Blairstown
Centertown
Coal
Edgerton
Hardin
Houstonia
Leeton
Montrose
Orrick
St. Thomas
Syracuse
Urich

Brazito
Centerview
Craig
Eugene
Henrietta
Ionia
Lincoln
New Bloomfield
Otterville
Smithton
Taos
Waverly

Buckner
Holden
Lone Jack
Pleasant Hill
Tipton

Butler
Kearney
Mound City
Richland
Waynesville

California
Lake Lotawana
Russellville
Weston

Cole Camp
Lexington
Platte City
St. Robert
Windsor

Clinton
Lebanon
Rolla

Ferrelview
Maryville
Salem

Ft. Leonard Wood
Oak Grove
Warrensburg

Harrisonville
Odessa
Warsaw

Jefferson City

CenturyTel Service Areas:

Amazonia
Annapolis
Arcola
Aurora
Avenue City
Avilla
Belgrade
Bellevue
Birch Tree
Bolckow
Boss
Braymer
Bronaugh
Brunswick-Triplett
Bunker
Caledonia
Cameron
Canton
Centerville
Clarence
Clarksdale
Collins
Concordia
Cosby
Dadeville
Dalton
Easton
Edgar Springs
El Dorado Springs
Ellsinore
Elmer
Eminence
Everton
Ewing
Fillmore
Freemont
Golden City
Gorin
Gower
Greenfield
Grove Spring
Hamilton
Hartville
Helena
Houston
Humansville
Hunnewell
Irondale
Ironton

Jericho Springs
Kahoka
Keytesville
Kidder
Kingston
La Belle
La Plata
Ladonia
Lagrange
Lawson
Lesterville
Lewiston
Licking
Lowry City
Macon
Manes
Maysville
Milo
Monroe City
Montauk
Monticello
Mount Vernon
Mountain Grove
Nebo
Norwood
Oates
Osborn
Osceola
Palmyra
Paris
Perry
Plattsburg
Potosi
Raymondville
Revere
Roby
Rockville
Rosendale
Santa Fe
Sarcoxi
Savannah
Schell City
Shelbina
Shelbyville
Sheldon
Stewartsville
Stoutsville
Timbers
Trimble

Turney
Van Buren
Vanzant
Walker
Wayland
Weaubleau
West Quincy
Whitesville
Winona

Exhibit III
Executive Officers' Qualifications and Experience

Company's Telecommunications Background

See Attached



Allan C. Silber, Chairman & CEO

Mr. Silber is the Chairman and CEO of Acceris Communications Inc. Mr. Silber plays a critical and decisive role in the areas of mergers and acquisitions, finance and capital market activities for Acceris. Mr. Silber is actively involved in a number of cultural, charitable and community organizations. He is the Co-Chair of the United Jewish Appeal for 2004. He has been Chairman of the State of Israel Bonds and participates on a number of community boards, including the Mount Sinai Hospital Executive Committee, the Weizmann Institute of Science, the Jewish National Fund and was Chairman of numerous fundraising events for community-based international organizations. In 1998, Mr. Silber was recognized as an Honoree of the Jewish National Fund in recognition of community leadership and dedicated public service. Mr. Silber attended McMaster University and received a BSc from the University of Toronto.

[back to top](#)



Kelly D. Murumets, President

Ms. Murumets joined Counsel Corporation as Executive Vice President in February 2002 and was named Executive Vice President of Acceris Communications in December 2002 and appointed President in November 2003. Prior to joining Counsel and Acceris, Ms. Murumets was a Vice President with Managerial Design, where during her 15-year tenure, she was a valued advisor to clients throughout North America giving leaders the insight and guidance required to implement change, achieve results and improve profitability. Ms. Murumets received her BA from Bishop's University, her MBA from the University of Western Ontario's Ivey School of Business and her MSW from Wilfrid Laurier University, where she was the recipient of the Gold Medal and Governor General's Award.

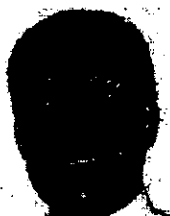
[back to top](#)



Gary M. Clifford, CFO

Gary Clifford joined Counsel Corporation as Chief Financial Officer in November 2002 and was appointed Vice President of Finance of Acceris Communications in December 2002 and Chief Financial Officer in February 2003. Prior to joining Counsel and Acceris, Mr. Clifford held various senior roles at Leitch Technology in the Finance, Operations and Corporate Development areas. Mr. Clifford has also worked for NetStar Communications Inc. and has lectured at Ryerson Polytechnic University in Toronto, Canada. Mr. Clifford is a Chartered Accountant, who articulated with Coopers & Lybrand. He is a graduate of the University of Toronto, with a Bachelor degree in Management.

[back to top](#)



James Ducay, EVP, Chief Operating Officer

Jim Ducay joined Acceris in December 2002. Previously, Mr. Ducay was Executive Vice President and Chief Operating Officer of RSL COM USA with responsibility for marketing, sales, account services, engineering, operations and information technology. Before joining RSL COM USA, Mr. Ducay was Vice President of Marketing and Sales for Ameritech Interactive Media Services where he was responsible for managing Ameritech's Internet products and related sales channels. He also served as a Managing Director

and Vice President for Bell Atlantic/NYNEX. Mr. Ducay has a Master's degree in Engineering from the University of Illinois and a Master of Business Administration degree from the University of Chicago.

[back to top](#)



Kenneth L. Hilton, EVP, Sales and Marketing

Ken Hilton joined Acceris in May 2002. Previously, Mr. Hilton served as the CEO of Handtech.com, an Internet based start-up in Austin, Texas that provided customized E-Commerce storefronts, supply chain management and back office services to value-added resellers. Prior to Handtech, Mr. Hilton was the Executive Vice President of North American Consumer Sales for Excel Communications, where he also served as the Chairman of the Board for Excel Canada. At Excel, Mr. Hilton managed a field organization of 250,000+ independent agents and \$1+ billion in annual revenue. Before joining Excel, Mr. Hilton worked for PageMart wireless where he ran the North American business, launched the Canadian business and served as Chairman of the Canadian Board. Mr. Hilton also had a 14-year career with IBM, holding positions in sales, sales management, branch management and regional management.

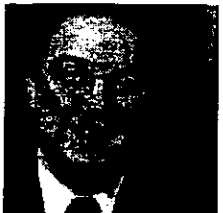
[back to top](#)



Samuel L. Shimer, SVP, Mergers & Acquisitions / Business Development

Mr. Shimer was appointed Senior Vice President, Mergers & Acquisitions/Business Development of Acceris Communications in February 2003. From 1997 to present he has been employed by Counsel Corporation, serving as a Managing Director since 1998. Mr. Shimer is currently serving as a director of Counsel Communications, the parent of I-Link. Prior to joining Counsel, Mr. Shimer spent six years at Corporate Partners and Centre Partners, two merchant banking funds affiliated with Lazard Freres & Co., ultimately serving as a Principal. Mr. Shimer also spent two years at The Blackstone Group in the merchant banking and advisory services areas. Pre-business school, Mr. Shimer worked for two years in the corporate finance department at Drexel, Burnham & Lambert Incorporated. Mr. Shimer earned a Bachelor of Science in Economics degree from The Wharton School of the University of Pennsylvania, where he was valedictorian of his undergraduate class, and received an MBA from Harvard Business School.

[back to top](#)



Stephen Weintraub, SVP and Corporate Secretary

Mr. Weintraub joined Counsel Corporation in June 1983 as Vice President, Finance and Chief Financial Officer. He has been and is an officer and director of various Counsel Corporation subsidiaries. Mr. Weintraub serves as Senior Vice President and Secretary of Acceris Communications. He has been Secretary of Counsel Corporation since 1987 and Senior Vice President since 1989. From 1980 to 1983, he was Secretary-Treasurer of Pinetree Development Co. Limited, a private real estate developer and investor. From 1975 to 1980 he was Treasurer and CFO of Unicorp Financial Corporation, a public financial management and holding company. Mr. Weintraub received a B. Comm. from the University of Toronto, qualified as a Chartered Accountant with Clarkson, Gordon (now Ernst & Young) and received an LLB from Osgoode Hall Law School, York University.

Exhibit IV
Financial Information

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

FORM 10-Q

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

For the quarterly period ended June 30, 2004

OR

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 0-17973

ACCERIS COMMUNICATIONS INC.

(Exact name of registrant as specified in its charter)

FLORIDA

59-2291344

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

9775 Businesspark Avenue, San Diego, California 92131
(Address of principal executive offices)

(858) 547-5700
(Registrant's telephone number)

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

Check whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes ☐ No ☒

As of August 6, 2004, there were 19,262,095 shares of common stock \$0.01 par value outstanding.

PART I – FINANCIAL INFORMATION
Item 1 – Financial Statements.

ACCERIS COMMUNICATIONS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except share and per share amounts)	June 30, 2004	December 31, 2003
	(unaudited)	(unaudited) (as restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,357	\$ 2,033
Accounts receivable, less allowance for doubtful accounts of \$1,352 and \$1,764 at June 30, 2004 and December 31, 2003, respectively	14,352	18,018
Investment in preferred and common stock	—	2,058
Other current assets	1,813	2,202
Total current assets	18,522	24,311
Furniture, fixtures, equipment and software, net	6,237	8,483
Other assets:		
Intangible assets, net	2,593	3,297
Goodwill	1,120	1,120
Investment in preferred stock	1,100	1,100
Other assets	728	743
Total assets	\$ 30,300	\$ 39,054
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 27,322	\$ 29,113
Unearned revenue	1,496	5,678
Revolving credit facility	7,154	12,127
Current portion of notes payable	138	1,254
Current portion of obligations under capital leases	2,825	2,715
Total current liabilities	38,935	50,887
Notes payable, less current portion	724	772
Obligations under capital leases, less current portion	191	1,631
Notes payable to a related party, net of unamortized Beneficial Conversion Features	42,122	28,717
Total liabilities	81,972	82,007
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$10.00 par value, authorized 10,000,000 shares, issued and outstanding 619 at June 30, 2004 and December 31, 2003, liquidation preference of \$613 at June 30, 2004 and December 31, 2003	6	6
Common stock, \$0.01 par value, authorized 300,000,000 shares, issued and outstanding 19,262,095 at June 30, 2004 and December 31, 2003	192	192
Additional paid-in capital	183,581	182,879
Accumulated deficit	(235,451)	(226,030)
Total stockholders' deficit	(51,672)	(42,953)
Total liabilities and stockholders' deficit	\$ 30,300	\$ 39,054

The accompanying notes are an integral part of these condensed consolidated financial statements

2

ACCERIS COMMUNICATIONS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(In thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(as restated)		(as restated)	
Revenues:				
Telecommunications services	\$26,419	\$35,995	\$61,142	\$ 66,362
Technology licensing and development	90	1,050	540	1,050
Total revenues	<u>26,509</u>	<u>37,045</u>	<u>61,682</u>	<u>67,412</u>
Operating costs and expenses:				
Telecommunications network expense (exclusive of depreciation expense on telecommunications network assets of \$1,294 and \$1,056 for the three months ended June 30, 2004 and 2003, respectively, and \$2,639 and \$2,086 for the six months ended June 30, 2004 and 2003, respectively, included in depreciation and amortization below)	15,477	21,319	32,112	47,068
Selling, general and administrative	14,074	14,617	28,834	28,841
Provision for doubtful accounts	1,740	1,131	2,967	2,306
Research and development	106	—	106	—
Depreciation and amortization	1,653	1,758	3,357	3,584
Total operating costs and expenses	<u>33,050</u>	<u>38,825</u>	<u>67,376</u>	<u>81,799</u>
Operating loss	<u>(6,541)</u>	<u>(1,780)</u>	<u>(5,694)</u>	<u>(14,387)</u>
Other income (expense):				
Interest expense	(2,487)	(3,394)	(6,022)	(6,309)
Interest and other income	812	1	2,189	3
Total other income (expense)	<u>(1,675)</u>	<u>(3,393)</u>	<u>(3,833)</u>	<u>(6,306)</u>
Loss from continuing operations	<u>(8,216)</u>	<u>(5,173)</u>	<u>(9,527)</u>	<u>(20,693)</u>
Gain from discontinued operations (net of \$0 tax)	<u>—</u>	<u>371</u>	<u>104</u>	<u>94</u>
Net loss	<u>\$ (8,216)</u>	<u>\$ (4,802)</u>	<u>\$ (9,423)</u>	<u>\$ (20,599)</u>
Basic and diluted weighted average shares outstanding	19,262	5,834	19,262	5,834
Net loss per common share – basic and diluted:				
Loss from continuing operations	\$ (0.43)	\$ (0.88)	\$ (0.50)	\$ (3.55)
Gain from discontinued operations	—	0.06	0.01	0.02
Net loss per common share	<u>\$ (0.43)</u>	<u>\$ (0.82)</u>	<u>\$ (0.49)</u>	<u>\$ (3.53)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements

ACCERIS COMMUNICATIONS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(In thousands of dollars)	Six Months Ended June 30,	
	2004	2003 (as restated)
Cash flows from operating activities:		
Net loss	\$(9,423)	\$(20,599)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,357	3,584
Provision for doubtful accounts	2,967	2,306
Decrease in allowance for impairment of net assets of discontinued operations	(148)	(169)
Gain on sale of investment in common stock	(1,376)	—
Accrued interest added to loan principal	1,929	2,122
Expense associated with stock options issued to non-employee for services	9	—
Settlement of note payable	—	(394)
Gain on discharge of obligation	(767)	—
Management benefit conferred by controlling shareholder	115	—
Stock received as payment on technology licensing agreement	—	(1,100)
Amortization of discount on notes payable to related party	2,599	2,373
Increase (decrease) from changes in operating assets and liabilities:		
Accounts receivable	699	(4,588)
Other assets	390	(436)
Unearned revenue	(4,182)	9,307
Accounts payable and accrued liabilities	(1,021)	2,509
Net cash used in operating activities	(4,852)	(5,085)
Cash flows from investing activities:		
Purchases of furniture, fixtures, equipment and software	(393)	(1,305)
Cash received from sale of assets	—	160
Cash received from sale of investments in common stock, net	3,582	—
Net cash provided by (used in) investing activities	3,189	(1,145)
Cash flows from financing activities:		
Proceeds from issuance of notes payable to related party	9,439	100
Proceeds from (repayment of) revolving credit facility, net	(4,973)	5,762
Payment of capital lease and note payable obligations	(1,390)	(1,268)
Payment of note payable to RSL Estate	(1,104)	—
Costs paid by controlling shareholder	15	64
Net cash provided by financing activities	1,987	4,658
Increase (decrease) in cash and cash equivalents	324	(1,572)
Cash and cash equivalents at beginning of period	2,033	3,620
Cash and cash equivalents at end of period	\$ 2,357	\$ 2,048
Supplemental schedule of non-cash investing and financing activities:		
Preferred stock received in exchange for assets of discontinued operations	\$ —	\$ 1,691

The accompanying notes are an integral part of these condensed consolidated financial statements

ACCERIS COMMUNICATIONS INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Note 1 – Description of Business and Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of Acceris Communications Inc. (formerly I-Link Incorporated) and its wholly owned subsidiaries Acceris Communications Corp. ("ACC," formerly WorldxChange Corp.); I-Link Communications Inc., ("ILC"), which is substantially included in discontinued operations; Transpoint Holdings Corporation, which includes the purchased assets of Transpoint Communications, LLC and the purchased membership interest in Local Telecom Holdings, LLC (collectively, "Transpoint"), which the Company purchased in July 2003; and Acceris Communications Technologies, Inc. These entities combined are referred to as "Acceris" or the "Company" in these unaudited condensed consolidated financial statements.

We are a broad-based communications company, servicing residential, small and medium-sized businesses and corporate accounts in the United States. We provide a range of products from local dial tone, domestic and international long-distance voice services to fully managed, integrated data and enhanced services. We are a US facilities-based carrier with points of presence in 30 major US cities. Our voice network features 11 voice switches and nationwide Feature Group D ("FGD") access which enables low cost call origination. Our data network consists of 17 Nortel Passports that have recently been upgraded to support multi-protocol label switching ("MPLS"). Finally, we have relationships with multiple tier I and tier II providers in the U.S. and abroad, which allows for efficient call management and least cost routing.

We currently manage our Company through two business segments. The Telecommunications segment provides voice and data services to our residential customers and large corporate accounts, while the Technologies segment is responsible for commercialization of our proprietary soft-switch technology and underlying intellectual property, including the Company's Voice over Internet Protocol ("VoIP") patent portfolio.

Telecommunications

Our Telecommunications segment offers a broad range of voice and data products and services to residential, small office/home office ("SOHO") and small-medium sized enterprises ("SME"), and corporate accounts through a network of multi-level marketing ("MLM") agents, commercial agents, affinity groups and outbound telemarketing. Our customers are serviced through direct sales and support teams who offer fully managed and fully integrated voice and data solutions.

We have capitalized upon a unique synthesis of marketing and network capabilities. Through the strength of our agent network we are adding new customers each month, many of them with a strong international usage component. Due to our favorable cost structure and network optimization, we offer competitive rates to selected international regions. We continue to experience customer attrition particularly with our 10-10-XXX customer base which we have not marketed directly since 2002. We have also seen the average revenue per user ("ARPU") decline. The Company's domestic telephone network continues to operate at well below available capacity leading to cost inefficiencies. We attribute this to increased cellular penetration and deregulation in various countries which have lower rates per month in those markets. This is most evident in India in 2004. Additionally, regulatory uncertainty exists in the domestic telephone markets due to recent court decisions. Future regulatory changes may penalize or benefit the current operations of the business.

We differentiate ourselves to our residential customers by offering attractively priced bundles of international minutes, both on a stand alone basis and as part of a local dial tone + long-distance package to preferred destinations, and by specialized customer service, which includes in-language customer support. By using this targeted strategy, we have acquired a substantial number of ethnic users whose monthly spending on telecommunications services is generally higher than that of the average retail customer.

Our proprietary technology enables us to offer unbundled value-added services such as voicemail, unified messaging and on-the-fly conferencing at a low cost, creating another competitive advantage when targeting retail customers. These features distinguish us from mass-market providers that typically offer higher priced, "one-size-fits-all" national and international rate plans. We are in the process of productizing and deploying this technology.

Our direct sales force focuses on multi-location customers with limited information technology ("IT") resources. By

taking a consultative approach to network solutions and providing in-depth analysis of our customers' business needs and operating environments, we are able to design and deliver competitively priced and customized voice and data solutions. Our commercial customers also benefit from our relationships with multiple providers, which ensures superior service with respect to network redundancy, cost and supplier risk. We are able to offer strong customer service due to easy access to information and to our engineering, technical and administrative staffs.

Technologies

Our Technologies segment offers a proven network convergence solution for the deployment of IP-based voice and data services over a single network. We have over nine years of experience developing VoIP technologies. Our proprietary soft-switch solution both enables existing telecom service providers to reduce telecommunications costs and permits new communications service providers to enter the enhanced communications market with limited investment. In addition, we have a patent portfolio that includes two VoIP patents (the "VoIP Patents") which we believe are foundational VoIP patents for communications over traditional telecommunication networks. We are pursuing opportunities to leverage our patents through a focused licensing strategy that targets carriers, equipment vendors and customers who are deploying IP for phone-to-phone communication.

All significant intercompany accounts and transactions have been eliminated upon consolidation.

Management believes that the unaudited interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The December 31, 2003, condensed consolidated balance sheet presented herein is derived from audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The condensed consolidated financial statements should be read in conjunction with the Company's annual report on Form 10-K, for the year ended December 31, 2003, filed with the Securities and Exchange Commission.

The results of operations for the three and six month periods ended June 30, 2004 are not necessarily indicative of those to be expected for the entire year ending December 31, 2004.

Note 2 – Restatement

The consolidated financial statements of the company have been restated in each reporting period from the fourth quarter of 2002 through to the first quarter of 2004 to correct for the misapplication of the accounting principles of Emerging Issues Task Force Issue No. 00-27 ("EITF 00-27"). The restated numbers are included in the year to date results as presented in the accompanying consolidated financial statements.

On September 20, 2004, management of the Company concluded that the accounting principles as set forth in EITF 00-27, regarding Beneficial Conversion Features ("BCF"), had not been properly applied in current and prior years to its convertible debentures issued in March 2001. The initial determination of the BCF in 2001 at the issue date was correct. However, adjustments to the number of shares and their conversion price were made under the debentures' anti-dilution provisions. The various anti-dilution events and their respective impacts on the number of shares and the conversion price were disclosed in the Company's previous public filings. However, the principles under EITF 00-27 also require a redetermination of the BCF at each date an anti-dilution event occurred. This redetermination was not completed in prior reporting periods. Additionally, the accumulation of unpaid interest costs on these same convertible debentures has been deemed to be interest paid in kind ("PIK"); such interest also contains a conversion feature, which once assessed as PIK interest required the determination of a BCF. This determination was not made by the Company in its prior reportings.

This matter was raised by the Company's recently appointed independent auditors, BDO Seidman, LLP ("BDO"), in the course of their review of the Company's prior public filings. After discussions among the Company's management, BDO, and the Company's prior auditors, PricewaterhouseCoopers, LLP ("PwC"), the Company's management concluded that a correction of the prior accounting on this matter was required. The Company's management brought the matter for consideration before the Audit Committee and the full Board of Directors of the Company. Having considered the circumstances underlying the accounting errors and their effects upon the Company's prior filings, and having discussed the matter with the BDO and PwC representatives as well as the Company's management, the Audit Committee concluded that the previously issued financial statements should not be relied upon and approved and authorized the Company's management to amend certain previously filed public reports.

The correction of these errors results in an increase in deemed interest expense and net loss, in all reporting periods from the fourth quarter of 2002 through the first quarter of 2004, and a reduction in reported liabilities and stockholders' deficit in all reporting periods from the fourth quarter of 2002 through the first quarter of 2004. The effect of these errors is detailed, by reporting period, below. The restatement had no effect on loss from discontinued operations or net loss per share from discontinued operations.

Effect of the restatements on the consolidated statements of operations

(in thousands of dollars except per share amounts)

(per share information reported on a post 20:1 stock consolidation basis for all periods shown. Stock consolidation enacted in the fourth quarter of 2003)

	<u>Three months ended Dec. 31, 2002</u>	<u>Three months ended March 31, 2003</u>	<u>Three months ended June 30, 2003</u>	<u>Three months ended Sept. 30, 2003</u>	<u>Three months ended Dec. 31, 2003</u>	<u>Three months ended March 31, 2004</u>
Net income (loss) as currently reported on Form 10-K or 10-Q	\$(11,117)	\$(14,895)	\$(3,713)	\$(3,257)	\$(4,456)	\$ 594
Correction of EITF 00-27 errors	<u>(301)</u>	<u>(902)</u>	<u>(1,089)</u>	<u>(1,337)</u>	<u>(1,779)</u>	<u>(1,801)</u>
Net loss as expected to be reported on revised Form 10-K or 10-Q	<u>\$(11,418)</u>	<u>\$(15,797)</u>	<u>\$(4,802)</u>	<u>\$(4,594)</u>	<u>\$(6,235)</u>	<u>\$(1,207)</u>
Net income (loss) per share as currently reported on Form 10-K or 10-Q	<u>\$ (1.92)</u>	<u>\$ (2.55)</u>	<u>\$ (0.64)</u>	<u>\$ (0.56)</u>	<u>\$ (0.44)</u>	<u>\$ 0.03</u>
Net loss per share as expected to be reported on revised Form 10-K or 10-Q	<u>\$ (1.96)</u>	<u>\$ (2.71)</u>	<u>\$ (0.82)</u>	<u>\$ (0.79)</u>	<u>\$ (0.59)</u>	<u>\$ (0.06)</u>

Effect of the restatements on the consolidated balance sheets
(in thousands of dollars)

	<u>As at Dec. 31, 2002</u>	<u>As at March 31, 2003</u>	<u>As at June 30, 2003</u>	<u>As at Sept. 30, 2003</u>	<u>As at Dec. 31, 2003</u>	<u>As at March 31, 2004</u>
Notes payable to a related party:						
As currently reported on Form 10-K or 10-Q	\$ 30,058	\$ 30,496	\$ 30,985	\$ 33,483	\$ 35,073	\$ 41,060
Correction of EITF 00-27 errors	<u>(6,109)</u>	<u>(5,364)</u>	<u>(4,437)</u>	<u>(3,265)</u>	<u>(6,356)</u>	<u>(4,834)</u>
As expected to be reported on revised Form 10-K or 10-Q	<u>\$ 23,949</u>	<u>\$ 25,132</u>	<u>\$ 26,548</u>	<u>\$ 30,218</u>	<u>\$ 28,717</u>	<u>\$ 36,226</u>

Additional paid-in

capital:

As currently reported on Form 10-K or 10-Q	\$ 129,553	\$ 129,553	\$ 129,618	\$ 129,618	\$ 171,115	\$ 171,192
Correction of EITF 00-27 errors	6,410	6,567	6,729	6,894	11,764	12,043

As expected to be reported on revised Form 10-K or 10-Q	<u>\$ 135,963</u>	<u>\$ 136,120</u>	<u>\$ 136,347</u>	<u>\$ 136,512</u>	<u>\$ 182,879</u>	<u>\$ 183,235</u>
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Accumulated deficit

As currently reported on Form 10-K or 10-Q	\$(194,301)	\$(209,196)	\$(212,909)	\$(216,166)	\$(220,622)	\$(220,028)
Correction of EITF 00-27 errors	(301)	(1,203)	(2,292)	(3,629)	(5,408)	(7,209)

As expected to be reported on revised Form 10-K or 10-Q	<u>\$(194,602)</u>	<u>\$(210,399)</u>	<u>\$(215,201)</u>	<u>\$(219,795)</u>	<u>\$(226,030)</u>	<u>\$(227,237)</u>
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Stockholders' equity (deficit):

As currently reported on Form 10-K or 10-Q	\$ (63,925)	\$ (78,820)	\$ (82,468)	\$ (85,725)	\$ (49,309)	\$ (47,292)
Correction of EITF 00-27 errors	6,109	5,364	4,437	3,265	6,356	4,834
As expected to be reported on revised Form 10-K or 10-Q	<u>\$ (57,816)</u>	<u>\$ (73,456)</u>	<u>\$ (78,031)</u>	<u>\$ (82,460)</u>	<u>\$ (42,953)</u>	<u>\$ (42,458)</u>

Note 3 – Summary of Significant Accounting Policies**Net loss per share**

Basic earnings per share is computed based on the weighted average number of Acceris common shares outstanding during the period. Options, warrants, convertible preferred stock and convertible debt are included in the calculation of diluted earnings per share, except when their effect would be anti-dilutive. As the Company has a net loss for the three and six month periods ended June 30, 2003 and 2004, basic and diluted loss per share are the same.

Potential common shares that were not included in the computation of diluted earnings per share because they would have been anti-dilutive are as follows:

	June 30, 2004	June 30, 2003
Assumed conversion of Series N preferred stock	24,760	24,760
Assumed conversion of convertible debt	2,599,350	6,419,150
Assumed exercise of options and warrants to purchase shares of common stock	2,377,030	436,650
	<u>5,001,140</u>	<u>6,880,560</u>

Investments

Dividends and realized gains and losses on securities are included in other income in the condensed consolidated statements of operations.

The Company holds investments in convertible preferred stock of AccessLine Communications Corporation ("AccessLine"). The convertible preferred stock is accounted for under the cost method, as the preferred securities are not

readily marketable and the Company's ownership interests do not allow it to exercise significant influence over this entity. As of June 30, 2004 and December 31, 2003, the carrying value of the preferred stock was \$1,100. The Company monitors this investment for impairment annually by considering current factors including economic environment, market conditions and operational performance and other specific factors relating to the business underlying the investment, and will record impairments in carrying values when necessary. The fair value of the security is estimated using the best available information as of the evaluation date, including the quoted market prices of comparable public companies, market price of the common stock underlying the preferred stock, recent financing rounds of the investee and other investee specific information. See Note 6 for further discussion of the Company's investment in AccessLine convertible preferred stock.

Concentrations

Concentrations of risk with third party providers:

Acceris utilizes the services of certain local exchange carriers ("LECs") to bill and collect from customers for a significant portion of its revenues. If the LECs were unable or unwilling to provide such services in the future, the Company would be required to significantly enhance its billing and collection capabilities in a short amount of time and its collection experience may be adversely affected during this transition period. If the LECs were unable to remit payments received from their customers relating to Acceris billings, the Company's operations and cash position may be adversely affected. Management believes it has good business relationships with the LECs.

The Company depends on certain large telecommunications carriers to provide network services for significant portions of the Company's telecommunications traffic. If these carriers were unwilling or unable to provide such services in the future, the Company's ability to provide services to its customers may be adversely affected and the Company might not be able to obtain similar services from alternative carriers on a timely basis or on terms acceptable to the Company. Management believes it has good business relationships with its key carriers.

Concentrations of credit risk

The Company's retail telecommunications subscribers are primarily residential and small business subscribers in the United States. The Company's customers are generally concentrated in the areas of highest population in the United States, more specifically California, Florida, New York, Texas and Illinois. No single customer accounted for over 10% of revenues in the three and six month periods ending June 30, 2004 or 2003. The Company performs ongoing credit evaluations of its larger carrier and retail business customers but generally does not require collateral to support customer receivables.

Use of estimates

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

Stock-based compensation

At June 30, 2004, the Company had several stock-based compensation plans, which are described more fully in Note 18 to the audited consolidated financial statements contained in our most recently filed Form 10-K. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations (collectively, "APB 25"). Stock-based employee compensation cost is not reflected in net loss, as all options granted under those plans had an exercise price equal to or in excess of the market value of the underlying common stock on the date of grant. In accordance with SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, see below for a tabular presentation of the pro forma stock-based compensation cost, net loss and loss per share as if the fair value-based method of expense recognition and measurement prescribed by SFAS 123 had been applied to all employee options. Options granted to non-employees (excluding non-employee members of the Company's Board of Directors), consultants and marketing agents are recognized and measured using the fair value-based method prescribed by SFAS 123.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
		(as restated)		(as restated)
Net loss as reported	\$(8,216)	\$(4,802)	\$(9,423)	\$(20,599)
Deduct:				
Employee stock-based compensation cost determined under the fair value-based method for all awards, net of \$0 tax	(161)	(18)	(338)	(36)
Pro forma net loss	\$(8,377)	\$(4,820)	\$(9,761)	\$(20,635)
Net loss per share, basic and diluted:				
As reported	\$ (0.43)	\$ (0.82)	\$ (0.49)	\$ (3.53)
Pro forma	\$ (0.43)	\$ (0.83)	\$ (0.51)	\$ (3.54)

Note 4 – Liquidity and Capital Resources

The Company has incurred substantial operating losses and negative cash flows from operations since inception. At June 30, 2004 the Company had a stockholders' deficit of \$51,672 (\$42,953 – December 31, 2003), negative working capital of \$20,413 (\$26,576 – December 31, 2003), amounts due to its controlling shareholder of \$42,122 (\$28,717 – December 31, 2003) and \$7,154 (\$12,127 – December 31, 2003) owing under its revolving credit facility (included in working capital). There are \$nil additional borrowings available under the revolving credit facility at June 30, 2004.

The related party debt is owed to the Company's controlling shareholder, Counsel Corporation (collectively with all its subsidiaries "Counsel") and is due at December 31, 2005, subject to certain contingent acceleration clauses linked to the raising of capital. In addition to the Company's expectation of raising funds in the remainder of 2004 from third parties, the Company has a funding commitment from Counsel to fund, through long-term intercompany advances or equity contributions, all capital investment, working capital or other operational cash requirements (the "Keep Well") through June 30, 2005. During the first six months of 2004, Counsel advanced the Company \$9,439 under the Keep Well, and converted \$1,929 of accrued interest into principal.

The revolving credit facility is provided by an asset based lender. The asset based lender is secured by a first lien on all of the assets of ACC. Borrowings under the facility are based on various advance rates of the accounts receivable base subject to certain reductions and covenants. Amounts available under the asset based facility are subject to change based upon the level of receivables and other related factors, such as the aging of accounts, customer concentrations, etc. Borrowings under this facility are classified as a current liability due to the demand nature of the borrowings. The facility matures on June 30, 2005. The Company is looking to extend the term of the facility beyond its current maturity date, or to replace the facility prior to maturity.

In August 2004, the Company implemented a resizing of the organization targeted at reducing its operating costs. The cost cutting reflects both the continued efficiencies created by the ongoing integration of the Company's operations, related to its four acquisitions over the last three years, and management's commitment to its objective of achieving break-even operating income by the end of 2004, despite softening revenue and regulatory uncertainty. Approximately 20 percent of the Company's work force has been removed from the organization. The reduction affected staff in the San Diego, Pittsburgh and Somerset facilities. The Company anticipates that it will record expenses of between \$1,000 and \$2,000 during the third quarter ended September 30, 2004 related to this restructuring. Restructuring charges will include employee reduction costs and lease termination costs and may include additional charges related to potential asset impairments.

The Company does not expect to generate net cash flow from operating activities in the remainder of 2004. The Company expects that funding to support its operations will be derived from proceeds from a third party fund raise which may take the

form of debt, equity or a hybrid instrument, or from the proceeds on the sale of assets in addition to advances under the Keep Well. In the first half of 2004, the Company was funded primarily by increases in related party debt and from the proceeds on the sale of the shares held in BUI.

Management intends to raise funds from third parties to support the operating needs of the business. Use of funds from such arrangements may include such uses as funding operations, improving working capital, repaying obligations of the business and funding future merger and acquisition activities. There can be no assurance that the Company's capital raising efforts will be successful or can occur on favorable terms to existing security or debt holders.

There continues to be no assurance that the Company will be able to improve its cash flow from operations, obtain additional third party financing, extend, repay or refinance its debt with Counsel or its asset based lender on favorable terms,

or obtain an extension of the existing funding commitment from Counsel or its asset based lender beyond their respective maturity dates. This circumstance raises substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets and liquidation of liabilities that may result from this uncertainty.

Note 5 – Composition of Certain Financial Statements Captions

Furniture, fixtures, equipment and software consisted of the following:

	June 30, 2004	December 31, 2003
Telecommunications network equipment	\$ 14,303	\$ 14,196
Furniture, fixtures and office equipment	4,251	4,059
Building /leasehold improvements	313	305
Software and information systems	2,072	1,986
	<u>20,939</u>	<u>20,546</u>
Less accumulated depreciation and amortization	<u>(14,702)</u>	<u>(12,063)</u>
	<u>\$ 6,237</u>	<u>\$ 8,483</u>

Included in telecommunications network equipment was \$9,752 and \$9,739 in assets acquired under capital leases at June 30, 2004 and December 31, 2003, respectively. Accumulated amortization on these leased assets was \$7,569 and \$6,382 at June 30, 2004 and December 31, 2003, respectively.

Intangible assets consisted of the following:

June 30, 2004				
	Amortization period	Cost	Accumulated amortization	Net
Intangible assets subject to amortization:				
Customer contracts and relationships	12 - 60 months	\$2,006	\$ (849)	\$1,157
Agent relationships	36 months	2,116	(770)	1,346
Agent contracts	12 months	242	(242)	—
Patents	60 months	100	(10)	90
		<u>4,464</u>	<u>(1,871)</u>	<u>2,593</u>
Goodwill		<u>1,120</u>	<u>—</u>	<u>1,120</u>
Total intangible assets and goodwill		<u>\$5,584</u>	<u>\$(1,871)</u>	<u>\$3,713</u>
December 31, 2003				
	Amortization period	Cost	Accumulated amortization	Net
Intangible assets subject to amortization:				
Customer contracts and relationships	12 - 60 months	\$2,006	\$ (510)	\$1,496
Agent relationships	36 months	2,116	(415)	1,701
Agent contracts	12 months	242	(242)	—
Patents	60 months	100	—	100
		<u>4,464</u>	<u>(1,167)</u>	<u>3,297</u>
Goodwill		<u>1,120</u>	<u>—</u>	<u>1,120</u>

Total intangible assets and goodwill	<u>\$5,584</u>	<u>\$(1,167)</u>	<u>\$4,417</u>
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Amortization expense for the three months ended June 30, 2004 and 2003 was \$366 and \$174, respectively. Amortization expense for the six months ended June 30, 2004 and 2003 was \$718 and \$397, respectively.

Accounts payable and accrued liabilities consisted of the following:

	June 30, 2004	December 31, 2003
Accounts payable	\$10,209	\$ 3,370
Telecommunications and related accruals	2,916	9,840
Regulatory fees	6,694	6,790
Other	7,503	9,113
	<u>\$27,322</u>	<u>\$29,113</u>

Note 6 – Investments

Prior to June 21, 2004, the Company held an investment in the common stock of Buyers United Inc. (“BUI”), which investment was acquired as consideration received related to the sale of the operations of ILC. At the time of the sale of the ILC business, the purchase price consideration paid by BUI was in the form of convertible preferred stock, with additional shares of preferred stock received subsequently based on contingent earn out provisions in the purchase agreement. In addition, common stock dividends were earned on the preferred stock holding. On March 16, 2004, the Company converted its preferred stock into 1,500,000 shares of BUI common stock, and sold 750,000 shares at \$2.30 per share in a private placement transaction. This sale resulted in a gain of approximately \$565, which is included in interest and other income in the three months ended March 31, 2004 and was based on specific identification of the securities sold and their related cost basis. Through several open market transactions during the three months ended June 30, 2004, the Company sold the remaining 808,546 of these shares, resulting in a gain of approximately \$811. These gains are included in other income in the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2004.

The Company’s investments as of June 30, 2004 consist of convertible preferred stock in AccessLine. This stock was received as consideration for a licensing agreement in the second quarter of 2003 and was reflected in technology licensing and development revenues for that quarter, at its carrying value of \$1,100.

Note 7 – Network Service Offering

The Company, through its Telecommunications segment (see Note 16 for further discussion of the Company’s segments), began to sell a network service offering in November 2002. The Company ceased selling this network service offering in July 2003. Revenues for the Company’s network service offering are accounted for using the unencumbered cash receipt method. The Company determined that collectibility of the amounts billed to customers was not reasonably assured at the time of billing. Under its agreements with the LECs, cash collections remitted to the Company are subject to adjustment, generally over several months. Accordingly, the Company recognizes revenue when the actual cash collections to be retained by the Company are finalized and unencumbered. There was no further billing of customers for the network service offering subsequent to the program’s termination. During the three and six months ended June 30, 2004, the Company recognized \$190 and \$6,553, respectively, as non-recurring revenue from prior-year sales of this service offering as prior period cash collections were finalized. At June 30, 2004, the Company was awaiting the reconciliation from two remaining LECs, leaving approximately \$161 of cash receipts that were still subject to adjustment by the LECs and therefore encumbered. This amount is included in unearned revenue at June 30, 2004.

At March 31, 2004, the Company had not paid the service provider approximately \$519 which was previously reserved pursuant to services provided in July 2003, which were expensed as a telecommunications cost in the third quarter of 2003. During the second quarter of 2004, a settlement was reached with the service provider whereby the Company paid approximately \$300 to the service provider, rendering all parties free and clear of all future obligations under the plan. The discharge of the remaining \$219 obligation is included as an offset to telecommunications expense in the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2004.

Note 8 – Discharge of Obligation

In the first quarter of 2004, the Company was discharged of an obligation totaling \$767 owed to a consortium of owners of a certain telecommunications asset, to which the Company previously held an indefeasible right of usage. The discharge of

the obligation is included in interest and other income in the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2004.

Note 9 – Patent Residual Option

In the fourth quarter of 2003, Acceris acquired Patent No. 6,243,373 from an arms length party. Consideration provided was \$100 plus a 35% residual payable to the third party relating to the net proceeds from future licensing and or enforcement actions from the combined Acceris VoIP Patents (i.e. Patent No. 6,243,373 and 6,438,124). Net proceeds are defined as amounts collected from the third parties net of the direct costs associated with putting the licensing or enforcement in place and related collection costs. At that time of closing, Acceris was granted the right to decrease the residual payable from 35% to 30% on or before June 30, 2004 for an additional payment of \$614 and based upon exercising the right to decrease the residual from 35% to 30% Acceris would have the additional right to decrease its residual payable from 30% to 15% for an additional \$5,000. In the second quarter, Acceris was granted an extension through July 31, 2004 of its right to decrease the residual from 35% to 30% for no additional consideration by the arms length party. As of August 31, 2004, Acceris was subsequently granted a further extension of its right to decrease its residual from 35% to 30% through September 30, 2004 for no additional consideration. The additional right to decrease the residual from 30% to 15%, which is preconditioned on the decrease of residual from 35% to 30% remains in full force and effect.

Note 10 – Discontinued Operations

On December 6, 2002, the Company entered into an agreement to sell substantially all of the assets and customer base of ILC to BUI. The sale included the physical assets required to operate Acceris' nationwide network using its patented VoIP technology (constituting the core business of ILC) and a non-exclusive license in perpetuity to use Acceris' proprietary software platform. The sale closed on May 1, 2003 and provided for a post closing cash settlement between the parties. The sale price consisted of 300,000 shares of Series B convertible preferred stock (8% dividend) of BUI, subject to adjustment in certain circumstances, of which 75,000 shares were subject to an earn-out provision (contingent consideration). The fair value of the 225,000 shares (non-contingent consideration) of BUI convertible preferred stock was determined to be \$1,350 as of December 31, 2002. The earn-out took place on a monthly basis over a fourteen-month period, which began January 2003. The Company recognized the value of the earn-out shares as additional sales proceeds when earned. During the year ended December 31, 2003, 64,286 shares of the contingent consideration with a fair value of \$566 were earned and included as a component of gain (loss) from discontinued operations (32,142 shares with a fair value of \$371 were earned in the six months ended June 30, 2003). As of December 31, 2003, the combined fair value of the 225,000 original shares and the 64,286 shares earned from the contingent consideration was determined to be \$1,916. See Note 5 for a discussion of the disposition of these shares in the six months ended June 30, 2004.

In the first quarter of 2004, the Company recorded a gain from discontinued operations of \$104. This gain was due to the receipt in January 2004 of the remaining 10,714 shares of common stock as contingent consideration, which is recorded as additional gain from discontinued operations. Upon closing of the sale, BUI assumed all operational losses subsequent to December 2002. Accordingly, the gains of \$371 and \$94 for the three and six months ended June 30, 2003, respectively, include the increase in the sales price for the losses incurred since December 6, 2002.

Note 11 – Income Taxes

The Company recognized no income tax benefit from the losses generated in the six months ended June 30, 2004 and 2003 because of the uncertainty surrounding the realization of the related deferred tax asset. Pursuant to Section 382 of the Internal Revenue Code, annual usage of the Company's net operating loss carryforwards is limited as a result of previous cumulative changes of ownership resulting in a change of control of the Company. These rules in general provide that an ownership change occurs when the percentage shareholdings of 5% direct or indirect shareholders of a loss corporation have in aggregate increased by more than 50 percentage points during the immediately preceding three years.

Note 12 – Related Party Transactions

During the six months ended June 30, 2004, Counsel, Acceris' controlling shareholder, advanced \$9,439 and converted \$1,929 of interest payable to principal. All loans from Counsel mature on December 31, 2005 and accrue interest at rates ranging from 9% to 10%, with interest compounding quarterly and some of the loans are subject to an accelerated maturity in certain circumstances. At June 30, 2004, no events resulting in accelerated maturity had occurred. The Keep Well from Counsel expires on June 30, 2005 and provides a commitment to fund through long-term intercompany advances or equity contributions, all capital investment, working capital or other operational cash requirements of the Company.

The Chief Executive Officer ("CEO") of Acceris is an employee of Counsel. As CEO, he is entitled to an annual salary of \$275 and a discretionary bonus of up to 100% of the base salary.

Counsel provided additional management services through Acceris' President, Chief Financial Officer and Corporate Secretary, who are also employees of Counsel. No contractual arrangement exists for these services so the contribution of these individuals are considered as a conferred benefit by the controlling shareholder resulting in the recording of an expense of \$115 for the six months ended June 30, 2004. This expense is included in selling, general and administrative expenses and results in an increase in paid-in capital.

Note 13 – Commitments and Contingencies

Legal Proceedings

On April 16, 2004, certain shareholders of the Company (the "Plaintiffs") filed a putative derivative complaint in the Superior Court of the State of California in and for the County of San Diego, (the "Complaint") against the Company, WorldxChange Corporation (sic), Counsel Communications LLC, and Counsel Corporation as well as certain present and former officers and directors of the Company, some of whom also are or were directors and/or officers of the other corporate defendants (collectively, the "Defendants"). The Complaint alleges, inter alia, that the Defendants, in their respective roles as controlling shareholder and directors and officers of the Company committed breaches of the fiduciary duties of care, loyalty and good faith and were unjustly enriched, and that the individual Defendants committed waste of corporate assets, abuse of control and gross mismanagement. The Plaintiffs seek compensatory damages, restitution, disgorgement of allegedly unlawful profits, benefits and other compensation, attorneys' fees and expenses in connection with the Complaint. The Company believes that these claims in their entirety are without merit and intends to vigorously defend this action. There is no assurance that this matter will be resolved in the Company's favor and an unfavorable outcome of this matter could have a material adverse impact on its business, results of operations, financial position or liquidity.

Acceris and several of Acceris' current and former executives and board members were named in a securities action filed in the Superior Court of the State of California in and for the County of San Diego on April 16, 2004, in which the plaintiffs made claims nearly identical to those set forth in the derivative suit above. The Company believes that these claims in their entirety are without merit and intends to vigorously defend this action. There is no assurance that this matter will be resolved in the Company's favor and an unfavorable outcome of this matter could have a material adverse impact on its business, results of operations, financial position or liquidity.

In connection with the Company's efforts to enforce its patent rights, Acceris Communications Technologies Inc. filed a patent infringement lawsuit against ITXC Corp. ("ITXC") in the United States District Court of the District of New Jersey on April 14, 2004. The complaint alleges that ITXC's VoIP services and systems infringe the Company's U.S. Patent No. 6,243,373, entitled "Method and Apparatus for Implementing a Computer Network/Internet Telephone System." On May 7, 2004, ITXC filed a lawsuit against Acceris Communications Technologies Inc., and the Company, in the United States District Court for the District of New Jersey for infringement of five ITXC patents relating to VoIP technology, directed generally to the transmission of telephone calls over the Internet and the completion of telephone calls by switching them off the Internet and onto a public switched telephone network. The Company believes that the allegations contained in ITXC's complaint are, in their entirety, without merit and the Company intends to provide a vigorous defense to ITXC's claims. There is no assurance that this matter will be resolved in the Company's favor and an unfavorable outcome of this matter could have a material adverse impact on its business, results of operations, financial position or liquidity.

At our Adjourned Meeting of Stockholders held on December 30, 2003, our stockholders approved an amendment to our Articles of Incorporation, deleting Article VI thereof (regarding liquidations, reorganizations, mergers and the like). Stockholders who were entitled to vote at the meeting and advised us in writing, prior to the vote on the amendment, that they dissented and intended to demand payment for their shares if the amendment was effectuated, were entitled to exercise their appraisal rights and obtain payment in cash for their shares under Sections 607.1301 – 607.1333 of the Florida Business Corporation Act, provided their shares were not voted in favor of the amendment. In January 2004, appraisal notices in compliance with Florida corporate statutes were sent to all stockholders who had advised us of their intention to exercise their appraisal rights. The appraisal notices included our estimate of fair value of our shares, being \$4.00 per share on a post-split basis. These stockholders had until February 29, 2004 to return their completed appraisal notices along with certificates for the shares for which they were exercising their appraisal rights. Approximately 33 stockholders holding approximately 74,000 shares of our stock returned completed appraisal notices by February 29, 2004. A stockholder of 20 shares notified us of his acceptance of our offer of \$4.00 per share, while the stockholders of the remaining shares did not accept our offer. Subject to the qualification that we may not make any payment to a stockholder seeking appraisal rights if, at the time of payment, our total assets are less than our total liabilities, stockholders who accepted our offer to purchase their shares at the estimated fair value will be paid for their shares within 90 days of our receipt of a duly executed appraisal notice. If we

should be required to make any payments to dissenting stockholders, Counsel will fund any such amounts through the purchase of shares of our common stock. Stockholders who did not accept our offer were required to indicate their own estimate of fair value. Because Acceris did not agree with the estimates submitted by many of the dissenting shareholders,

Acceris has sought a judicial determination of the fair value of the common stock held by the dissenting stockholders. On June 24, 2004, Acceris filed suit against the dissenting shareholders seeking a declaratory judgment, appraisal and other relief in the Circuit Court for the 17th Judicial District in Broward County, Florida. There is no assurance that this matter will be resolved in the Company's favor and an unfavorable outcome of this matter could have a material adverse impact on our business, results of operations, financial position or liquidity.

The Company is involved in various other legal matters arising out of its operations in the normal course of business, none of which are expected, individually or in the aggregate, to have a material adverse effect on the Company.

Note 14 – Agent Warrant Program

During the first quarter of 2004, the Company launched the Acceris Communications Inc. Platinum Agent Program (the "Agent Warrant Program"), which provides for the issuance of warrants to purchase up to 1,000,000 shares of the Company's common stock to independent agents who participate in the Agent Warrant Program. The Agent Warrant Program was established to encourage and reward consistent, substantial and persistent production by selected commercial agents serving the Company's domestic markets and to strengthen the Company's relationships with these agents by granting long-term incentives in the form of the warrants to purchase the Company's common stock at current price levels. The Agent Warrant Program is administered by the Compensation Committee of the Board of Directors of the Company.

Participants in the Agent Warrant Program will be granted warrants upon commencement, the vesting of which is based on maintaining certain revenue levels for a period of 24 months. The grants are classified into tiers based on commissionable revenue levels, the vesting period of which begins upon the achievement of certain commissionable revenue levels during the eighteen month period beginning February 1, 2004. Vesting of the warrants within each tier occurs 50% after 12 months and 100% after 24 months, dependent on the agent maintaining the associated revenue level for the entire period.

As of June 30, 2004, 600,000 warrants have been issued under the Agent Warrant Program, none of which have met the requirements to begin vesting. The warrants issued under the plan will be accounted for under the provisions of the FASB's Emerging Issue Task Force's ("EITF") Issue No. 96-18, *Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* ("EITF 96-18"). Accordingly, the Company will recognize an expense associated with these warrants over the vesting period based on the then current fair market value of the warrants calculated at each reporting period. At such time as the vesting for any warrants begins, the expense will be included in selling, general and administrative expense. As the vesting period has not commenced for any of the warrants issued prior to June 30, 2004, no expense has been recognized in the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2004.

Note 15 – Subsequent Event

In August 2004, the Company implemented a resizing of the organization targeted at reducing its operating costs. The cost cutting reflects both the continued efficiencies created by the ongoing integration of the Company's operations, related to its four acquisitions over the last three years, and management's commitment to its objective to achieving break-even operating income by the end of 2004, despite softening revenue and regulatory uncertainty. Approximately 20 percent of the Company's work force has been removed from the organization. The reduction affected staff in the San Diego, Pittsburgh and Somerset facilities. The Company anticipates that it will record expenses of between \$1,000 and \$2,000 during the third quarter ended September 30, 2004 related to this restructuring. Restructuring charges will include employee reduction costs and lease termination costs and may include additional charges related to potential asset impairments. Management is in the process of assessing the impact of these measures on other assets.

In September 2004, the Company reached a settlement with the estate of Worldxchange relating to its June 2001 acquisition of the assets of Worldxchange Corporation. Pursuant to this settlement the Company has been discharged of approximately \$200 of recorded liabilities and further expects to receive additional proceeds of less than \$50 that will be recorded as income when collected.

Note 16 – Segment Reporting

In the first quarter of 2004, the Company changed the structure of its internal organization and the method upon which it evaluates its performance. Previously, the Company had three segments consisting of Enterprise, Retail and Technologies,

which primarily distinguished themselves by the product offerings available. In the first quarter of 2004, management began to evaluate the Company as two divisions consisting of Telecommunications and Technologies. The Company uses the information available by division to evaluate management and Company performance and to make decisions regarding the allocation of Company assets. Telecommunications includes the operations of the assets and liabilities purchased from WorldxChange (which we acquired in June 2001) and the Agent and Enterprise business of RSL, which were acquired in December 2002. This segment offers a dial around telecommunications product, a 1+ product and a local dial tone bundled offering through MLM, commercial agents and telemarketing channels. This segment also offers voice and data solutions to business customers through an in-house sales force. The Technologies segment offers a fully

developed network convergence solution for voice and data and licenses its technology to third party users. Prior period amounts have been restated to conform to this presentation.

There are no material inter-segment revenues. The Company's business is conducted principally in the U.S.; foreign operations are not significant. The table below presents information about the segments of the Company as of and for the three and six months ended June 30, 2004.

	For the three months ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
	(as restated)		(as restated)	
<i>Revenues from external customers:</i>				
Telecommunications	\$26,419	\$35,995	\$61,142	\$ 66,362
Technologies	90	1,050	540	1,050
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues from external customers for reportable segments	\$26,509	\$37,045	\$61,682	\$ 67,412
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Segment income (loss):</i>				
Telecommunications	\$ (5,819)	\$ (2,057)	\$ (4,644)	\$ (14,716)
Technologies	(486)	476	(407)	402
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total segment income (loss) for reportable segments	(6,305)	(1,581)	(5,051)	(14,314)
Unallocated amounts in consolidated net loss:				
Amortization of discount on notes payable	—	(192)	(104)	(382)
Gain on discharge of obligation	—	—	767	—
Gain on sale of investment in common stock	812	—	1,376	—
Corporate interest expense, net	(2,490)	(2,451)	(5,872)	(4,646)
Other corporate expenses	(233)	(949)	(643)	(1,351)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Consolidated net loss from continuing operations	\$ (8,216)	\$ (5,173)	\$ (9,527)	\$ (20,693)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

The following discussion should be read in conjunction with the information contained in the condensed consolidated financial statements of the Company and the related notes thereto appearing elsewhere herein and in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in the Company's Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission ("SEC"). All numbers are in thousands of dollars except for share and per share data.

Forward Looking Information

This report contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Exchange Act of 1934, as amended, that are based on management's exercise of business judgment as well as assumptions made by and information currently available to management. When used in this document, the words "may," "will," "anticipate," "believe," "estimate," "expect," "intend" and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as noted below. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. We undertake no obligation and do not intend to update, revise or otherwise publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize.

Many factors could cause actual results to differ materially from our forward-looking statements. Several of these factors, which are more fully discussed in our Annual Report on Form 10-K for the year ended December 31, 2003, include, without limitation:

1) Our ability to:

- finance and manage growth;
- execute on the strategy and the business plans of management;
- maintain our relationship with telecommunications carriers;
- provide ongoing competitive services and pricing;
- retain and attract key personnel;
- operate effective network facilities;
- maintain favorable relationships with local exchange carriers ("LECs"), long-distance providers and other vendors, including our ability to meet our usage commitments;
- attract new subscribers while minimizing subscriber attrition;
- continue to grow the distribution for our Telecommunications segment through multi level marketing ("MLM"), residential and commercial agents, and with our direct sales force;
- continue to offer competitive local dial tone, long distance and data products and to expand the geographic reach of our local dial tone offering;
- efficiently integrate completed acquisitions;
- address legal proceedings in an effective manner;
- maintain, operate and upgrade our information systems network;

- maintain and operate our networks in a cost effective manner;
- extend our related party debt beyond its December 31, 2005 maturity date or replace such debt on acceptable terms;
- complete a third party debt or equity financing;
- extend our asset based lending facility beyond its June 30, 2005 maturity or replace the facility on acceptable terms;
- obtain Counsel's continued commitment and ability to fund through June 30, 2005, the cash requirements of the business;
- maintain compliance with existing and evolving federal and state governmental regulation of telecommunications providers;

2) Adoption of new, or changes in, accounting principles; and

3) Other risks referenced from time to time in our filings with the SEC and the Federal Communications Commission.

Restatement

The consolidated financial statements of the company have been restated in each reporting period from the fourth quarter of 2002 through to the first quarter of 2004 to correct for the misapplication of the accounting principles of Emerging Issues Task Force Issue No. 00-27 ("EITF 00-27"). The restated numbers are included in the year to date results as presented in the accompanying consolidated financial statements.

On September 20, 2004, management of the Company concluded that the accounting principles as set forth in EITF 00-27, regarding Beneficial Conversion Features ("BCF"), had not been properly applied in current and prior years to its convertible debentures issued in March 2001. The initial determination of the BCF in 2001 at the issue date was correct. However, adjustments to the number of shares and their conversion price were made under the debentures' anti-dilution provisions. The various anti-dilution events and their respective impacts on the number of shares and the conversion price were disclosed in the Company's previous public filings. However, the principles under EITF 00-27 also require a redetermination of the BCF at each date an anti-dilution event occurred. This redetermination was not completed in prior reporting periods. Additionally, the accumulation of unpaid interest costs on these same convertible debentures has been deemed to be interest paid in kind ("PIK"); such interest also contains a conversion feature, which once assessed as PIK interest required the determination of a BCF. This determination was not made by the Company in its prior reportings.

This matter was raised by the Company's recently appointed independent auditors, BDO Seidman, LLP ("BDO"), in the course of their review of the Company's prior public filings. After discussions among the Company's management, BDO, and the Company's prior auditors, PricewaterhouseCoopers, LLP ("PwC"), the Company's management concluded that a correction of the prior accounting on this matter was required. The Company's management brought the matter for consideration before the Audit Committee and the full Board of Directors of the Company. Having considered the circumstances underlying the accounting errors and their effects upon the Company's prior filings, and having discussed the matter with the BDO and PwC representatives as well as the Company's management, the Audit Committee concluded that the previously issued financial statements should not be relied upon and approved and authorized the Company's management to amend certain previously filed public reports.

The correction of these errors results in an increase in deemed interest expense and net loss, in all reporting periods from the fourth quarter of 2002 through the first quarter of 2004, and a reduction in reported liabilities and stockholders' deficit in all reporting periods from the fourth quarter of 2002 through the first quarter of 2004. The effect of these errors is detailed, by reporting period, below. The restatement had no effect on loss from discontinued operations or net loss per share from discontinued operations.

Effect of the restatements on the consolidated statements of operations**(in thousands of dollars except per share amounts)****(per share information reported on a post 20:1 stock consolidation basis for all periods shown. Stock consolidation enacted in the fourth quarter of 2003)**

	<u>Three months ended</u> <u>Dec. 31, 2002</u>	<u>Three months ended</u> <u>March 31, 2003</u>	<u>Three months ended</u> <u>June 30, 2003</u>	<u>Three months ended</u> <u>Sept. 30, 2003</u>	<u>Three months ended</u> <u>Dec. 31, 2003</u>	<u>Three months ended</u> <u>March 31, 2004</u>
Net income (loss) as currently reported on Form 10-K or 10-Q	\$ (11,117)	\$ (14,895)	\$ (3,713)	\$ (3,257)	\$ (4,456)	\$ 594
Correction of EITF 00-27 errors	(301)	(902)	(1,089)	(1,337)	(1,779)	(1,801)
Net loss as expected to be reported on revised Form 10-K or 10-Q	<u>\$ (11,418)</u>	<u>\$ (15,797)</u>	<u>\$ (4,802)</u>	<u>\$ (4,594)</u>	<u>\$ (6,235)</u>	<u>\$ (1,207)</u>
Net income (loss) per share as currently reported on Form 10-K or 10-Q	<u>\$ (1.92)</u>	<u>\$ (2.55)</u>	<u>\$ (0.64)</u>	<u>\$ (0.56)</u>	<u>\$ (0.44)</u>	<u>\$ 0.03</u>
Net loss per share as expected to be reported on revised Form 10-K or 10-Q	<u>\$ (1.96)</u>	<u>\$ (2.71)</u>	<u>\$ (0.82)</u>	<u>\$ (0.79)</u>	<u>\$ (0.59)</u>	<u>\$ (0.06)</u>

Effect of the restatements on the consolidated balance sheets**(in thousands of dollars)**

	<u>As at</u> <u>Dec. 31, 2002</u>	<u>As at</u> <u>March 31, 2003</u>	<u>As at</u> <u>June 30, 2003</u>	<u>As at</u> <u>Sept. 30, 2003</u>	<u>As at</u> <u>Dec. 31, 2003</u>	<u>As at</u> <u>March 31, 2004</u>
Notes payable to a related party:						
As currently reported on Form 10-K or 10-Q	\$ 30,058	\$ 30,496	\$ 30,985	\$ 33,483	\$ 35,073	\$ 41,060
Correction of EITF 00-27 errors	(6,109)	(5,364)	(4,437)	(3,265)	(6,356)	(4,834)
As expected to be reported on revised Form 10-K or 10-Q	<u>\$ 23,949</u>	<u>\$ 25,132</u>	<u>\$ 26,548</u>	<u>\$ 30,218</u>	<u>\$ 28,717</u>	<u>\$ 36,226</u>
Additional paid-in capital:						

As currently reported on Form 10-K or 10-Q	\$ 129,553	\$ 129,553	\$ 129,618	\$ 129,618	\$ 171,115	\$ 171,192
Correction of EITF 00-27 errors	6,410	6,567	6,729	6,894	11,764	12,043
As expected to be reported on revised Form 10-K or 10-Q	<u>\$ 135,963</u>	<u>\$ 136,120</u>	<u>\$ 136,347</u>	<u>\$ 136,512</u>	<u>\$ 182,879</u>	<u>\$ 183,235</u>
Accumulated deficit						
As currently reported on Form 10-K or 10-Q	\$(194,301)	\$(209,196)	\$(212,909)	\$(216,166)	\$(220,622)	\$(220,028)
Correction of EITF 00-27 errors	(301)	(1,203)	(2,292)	(3,629)	(5,408)	(7,209)
As expected to be reported on revised Form 10-K or 10-Q	<u>\$(194,602)</u>	<u>\$(210,399)</u>	<u>\$(215,201)</u>	<u>\$(219,795)</u>	<u>\$(226,030)</u>	<u>\$(227,237)</u>
Stockholders' equity (deficit):						
As currently reported on Form 10-K or 10-Q	\$ (63,925)	\$ (78,820)	\$ (82,468)	\$ (85,725)	\$ (49,309)	\$ (47,292)
Correction of EITF 00-27 errors	6,109	5,364	4,437	3,265	6,356	4,834
As expected to be reported on revised Form 10-K or 10-Q	<u>\$ (57,816)</u>	<u>\$ (73,456)</u>	<u>\$ (78,031)</u>	<u>\$ (82,460)</u>	<u>\$ (42,953)</u>	<u>\$ (42,458)</u>

Overview and Recent Developments

We are a broad-based communications company, servicing residential, small and medium-sized businesses and large corporate accounts in the United States. We provide a range of products from local dial tone, domestic and international long-distance voice services to fully managed, integrated data and enhanced services. We are a facilities-based carrier with points of presence in 30 major U.S. cities. We currently have 11 voice switches and 17 data switches located throughout the United States. Our operational expertise and our focus on first-rate customer support enable us to provide high quality voice and data communications solutions.

We currently manage our Company through two business segments. Our Telecommunications segment offers a broad selection of voice and data telecommunications products and services to residential and commercial customers through a network of independent agents, primarily via MLM and commercial agent programs. Our Technologies segment offers a proven network convergence solution for voice and data in Voice over Internet Protocol ("VoIP") communications technology and holds two foundational patents in the VoIP space (U.S. Patent Nos. 6,243,373 and 6,438,124, together the "VoIP Patents"). We are pursuing efforts to license the technology supported by our patents to carriers and equipment manufacturers and suppliers in the IP telephony market.

In August 2004, the Company implemented a resizing of the organization targeted at reducing its operating costs. The cost cutting reflects both the continued efficiencies created by the ongoing integration of the Company's operations, related to its four acquisitions over the last three years, and management's commitment to its objective to achieving break-even operating income by the end of 2004, despite softening revenue and regulatory uncertainty. Approximately 20 percent of the Company's work force have been removed from the organization. The reduction affected staff in the San Diego, Pittsburgh and Somerset facilities. The Company anticipates that it will record expenses of between \$1,000 and \$2,000 during the third quarter ended September 30, 2004 related to this restructuring. Restructuring charges will include employee reduction costs and lease termination costs and may include additional charges related to potential asset impairments. Management is in the process of assessing the impact of these measures on other assets.

Acceris has been built through the acquisition of predecessor businesses, which have been and are continuing to be integrated, consolidated and reorganized. These predecessor businesses are organized into two segments: Telecommunications and Technologies. Telecommunications has been assembled through the acquisition of certain assets of WorldxChange Communications, Inc. ("WorldxChange") in 2001 and certain assets of RSL COM USA, Inc. ("RSL") in 2002. Added to this was the acquisition of the assets of Transpoint Communications, LLC and the membership interest of Local Telecom Holdings, Inc., (collectively, "Transpoint"), which closed in 2003.

Our development and transition is articulated below:

Telecommunications:

WorldxChange was a facilities-based telecommunications carrier providing international and domestic long-distance service to retail customers. At the time we purchased the business, WorldxChange consisted primarily of a dial-around product that allowed a customer to make a call from any phone by dialing a 10-10-XXX prefix. Since the acquisition, we have commenced offering a 1+ product (1+ products are those with which a customer directly dials a long-distance number from their telephone by dialing 1-area code-phone number) and have also begun to offer local communications products to our residential and small business customers. The local dial tone service is being provided under the terms of the Unbundled Network Element Platform ("UNE-P") authorized by the Telecommunications Act of 1996 and was available in New York and New Jersey in the first quarter of 2004, and has since expanded to Pennsylvania, Massachusetts and Florida. Historically, WorldxChange marketed its services through consumer mass marketing techniques, including direct mail and direct response television and radio. In 2002, we revamped our channel strategy by de-emphasizing the direct mail channel and devoting our efforts to pursuing more profitable methods of attracting and retaining customers. We now use commercial agents as well as a network of independent commission agents recruited through an MLM program to attract and retain new customers. In 2004 we launched the Acceris Communications Inc. Platinum Agent Program which awards warrants to certain of our agents based on performance criteria as a means to attract and incentivize existing and new independent agents. In December 2002, we completed the purchase of certain assets of RSL from a bankruptcy proceeding. The purchase included the assets used by RSL to provide long-distance voice and data services, including frame relay, to their commercial customers and the assets used to provide long-distance and other voice services to small businesses and the consumer/residential market, which they referred to as their Agent business.

In July 2003, we completed the purchase of Transpoint. The purchase of Transpoint provided us with further penetration into the commercial agent channel and a larger commercial customer base.

Our Telecommunications segment offers a broad range of voice and data products and services to residential, small office/home office ("SOHO") and small-medium sized enterprises ("SME"), and commercial customers through a network of MLM agents, commercial agents, affinity groups and outbound telemarketing. Our customers are serviced through direct sales and support teams who offer fully managed and fully integrated voice and data solutions.

We have capitalized upon a unique synthesis of marketing and network capabilities. Through the strength of our agent network we are adding new customers each month, many of them with a strong international usage component. Due to our favorable cost structure and network optimization, we offer competitive rates to selected international regions. We continue to experience customer attrition particularly with our 10-10-XXX customer base which we have not marketed directly since 2002. We have also seen the average revenue per user ("ARPU") decline. The Company's domestic telephone network continues to operate at well below available capacity leading to cost inefficiencies. We attribute this to increased cellular penetration and deregulation in various countries which have lower rates per month in those markets. This is most evident in India in 2004. Additionally, regulatory uncertainty exists in the domestic telephone markets due to recent court decisions. Future regulatory changes may penalize or benefit the current operations of the business.

We differentiate ourselves to our residential customers by offering attractively priced bundles of international minutes, both on a stand alone basis and as part of a local dial tone + long-distance package to preferred destinations, and by specialized customer service, which includes in-language customer support. By using this targeted strategy, we have acquired a substantial number of ethnic users whose monthly spending on telecommunications services is generally higher than that of the average retail customer. These subscribers also tend to exhibit higher brand loyalty, resulting in lower customer turnover ("churn") than average retail consumers for our type of products.

Our proprietary technology enables us to offer unbundled value-added services such as voicemail, unified messaging and on-the-fly conferencing at a low cost, creating another competitive advantage when targeting retail customers. These features distinguish us from mass-market providers that typically offer higher priced, "one-size-fits-all" national and international rate plans.

Our direct sales force focuses on multi-location customers with limited information technology ("IT") resources. By taking a consultative approach to network solutions and providing in-depth analysis of our customers' business needs and operating environments, we are able to design and deliver competitively priced and customized voice and data solutions. Our commercial customers also benefit from our relationships with multiple providers, which ensures superior service with respect to network redundancy, cost and supplier risk. We are able to offer strong customer service due to easy access to information and to our engineering, technical and administrative staffs.

Our voice network features 11 voice switches and nationwide Feature Group D ("FGD") access, which enables low cost call origination. Our data network consists of 17 Nortel Passports that have recently been upgraded to support multi-protocol label switching ("MPLS"). Finally, we have relationships with multiple tier I and tier II providers in the U.S. and abroad, which allows for efficient call management and least cost routing.

Technologies:

In 1994, we began operating as an Internet service provider and quickly identified that the emerging IP environment was a promising basis for enhanced service delivery. We soon turned to designing and building an IP telecommunications platform consisting of our proprietary software, hardware and leased telecommunications lines. The goal was to create a platform with the quality and reliability necessary for voice transmission.

In 1997, we started offering enhanced services over a mixed IP-and-circuit-switched network platform. These services offered a blend of traditional and enhanced communication services and combined the inherent cost advantages of the IP-based network with the reliability of the existing Public Switched Telephone Network ("PSTN").

In August 1997, we acquired MiBridge, Inc. ("MiBridge"), a communications technology company engaged in the design, development, integration and marketing of a range of software telecommunications products that support multimedia communications over the PSTN, LANs and IP networks. The acquisition of MiBridge permitted us to accelerate the development and deployment of IP technology across our network platform.

In 1998, we first deployed our real-time IP communications network platform. With this new platform, all core operating

functions such as switching, routing and media control became software-driven. This new platform represented the first nationwide, commercially viable VoIP platform of its kind. Following the launch of our software-defined VoIP platform in 1998, we continued to refine and enhance the platform to make it even more efficient and capable for our partners and customers.

On December 6, 2002, we entered into a definitive purchase and sale agreement to sell substantially all of the assets and customer base of our wholly owned subsidiary I-Link Communications, Inc. ("ILC") to Buyers United, Inc. ("BUI"), which closed on May 1, 2003. The sale included the physical assets required to operate our nationwide network using our patented VoIP technology (constituting the core business of the ILC business) and a fully paid non-exclusive perpetual license to our proprietary software-based network convergence solution for voice and data. The sale of the ILC business removed essentially all operations that did not pertain to our proprietary software-based convergence solution for voice and data. This sale marked the final stage of the transformation of our Technologies operations into a business based principally on the licensing of our proprietary software.

Today, our Technologies segment offers a proven network convergence solution for the deployment of IP-based voice and data services over a single network. We have over nine years of experience developing VoIP technologies. Our proprietary soft-switch solution enables existing telecom service providers to reduce telecommunications costs and permits new communications service providers to enter the enhanced communications market with limited capital investment. In addition, we own four patents and utilize the technology supported by those patents in providing our proprietary software solutions. We believe that we hold foundational patents for VoIP in our VoIP Patents. To date, we have licensed portions of that technology to third parties on a non-exclusive basis. In addition, we also have several patent applications pending before the United States Patent and Trademark Office and other such authorities internationally. We are pursuing opportunities to leverage our patents through a focused licensing strategy that targets carriers, equipment vendors and customers who are deploying IP for phone-to-phone communication.

Business Strategy

Our business strategy is to build a large, profitable base of residential, SME and corporate accounts that purchase bundled telecom services. As part of our strategy, we have consolidated our high quality communications networks and are in the process of restructuring our operations in order to leverage our infrastructure across branded sales channels.

To achieve our goals, through both organic and acquisition growth we plan to:

Penetrate our distribution channels: Our distribution channels, which we have built over the last three years, continue to grow and mature. Our recently launched Platinum Agent Program rewards agents for substantial and persistent production. The equity incentives available under this program are expected to increase both the number of commercial agents and the revenue contribution per commercial agent. The program provides for stock purchase warrants accruing for the benefit of selected agents, resulting in recurring revenue for us and providing incentives for our agents so that their objectives and ours are aligned.

Expand our product portfolio: We have recently expanded our product set to include local dial tone in order to extend the average life and monthly average revenues of current and future customers. We are currently delivering local dial tone services to customers via the UNE-P. In addition, we intend to roll-out VoIP and related services to our residential, SME and enterprise customers beginning in the later part of 2004 and continuing into 2005. Products will include an IP origination service with enhanced features such as call screening and find me/follow me, and multimedia business services that integrate voice, video and text in a single communication session.

Enter new geographic markets: In first quarter of 2004, we launched our local + long-distance bundled product set in New York and New Jersey. In the second quarter of 2004, we entered the Pennsylvania, Massachusetts and Florida markets. We currently offer stand alone long-distance services nationwide in the US.

License our intellectual property: We have four issued patents and two pending patent applications, which we utilize to provide our proprietary solutions. We believe that we hold the foundational patents for the manner in which a significant portion of VoIP traffic is routed in the marketplace today. We have licensed portions of our technology to third parties on a non-exclusive basis. We plan to further monetize our intellectual property by offering licenses to service providers, equipment companies and end-users who are deploying VoIP networks for phone-to-phone communications.

Leverage our existing scalable infrastructure: We have created a network and back office infrastructure that satisfies the needs of our existing customers and that will support additional revenue growth without significant incremental capital investment. We continue to reduce our network costs and are completing the consolidation of duplicate back office functions. Our IT strategy is expected to ensure efficiency and integrity internally by eliminating redundant costs and mitigating

strategic risks. We expect to make significant incremental capital investments pursuant to our expanded product portfolio outlined above, in addition to the base level of annual capital investment necessary to keep our infrastructure efficient and maintained.

Industry

Historically, the communications services industry has transmitted voice and data over separate networks using different technologies. Traditional carriers have typically built telephone networks based on circuit switching technology, which establishes and maintains a dedicated path for each telephone call until the call is terminated.

The communications services industry continues to evolve, both domestically and internationally, providing significant opportunities and risks to the participants in these markets. Factors that have been driving this change include:

- entry of new competitors and investment of substantial capital in existing and new services resulting in significant price competition
- technological advances resulting in a proliferation of new services and products and rapid increases in network capacity
- the Telecommunications Act of 1996 (the "1996 Act")
- growing deregulation of communications services markets in the United States and in selected countries around the world

VoIP is a technology that can replace services provided by the traditional telephone network. This type of data network is more efficient than a dedicated circuit network because the data network is not restricted by the one-call, one-line limitation of a traditional telephone network. This improved efficiency creates cost savings that can be either passed on to the consumer in the form of lower rates or retained by the VoIP provider.

The VoIP industry has grown dramatically from the early days of calls made through personal computers. According to a research study from Insight Research Corporation, VoIP-based services is projected to grow significantly through 2007, representing a growth opportunity for VoIP service providers.

Competition

Competition in the telecommunications industry is based upon pricing, customer service, billing services and perceived quality. We compete against numerous telecommunications companies that offer essentially the same services as we do. Many of our competitors, including the incumbent local exchange carriers ("ILECs"), are substantially larger and have greater financial, technical and marketing resources. Our success will depend upon our continued ability to provide high quality, high value services at prices competitive with, or lower than, those charged by our competitors.

The ILECs and the major carriers, including SBC, Verizon, BellSouth, AT&T, Sprint Corporation and MCI/Worldcom, Inc., have targeted price plans at residential and small business customers — our primary target market — with significantly simplified rate structures and with bundles of local services with long-distance, which may lower overall local and long-distance prices. Competition is also fierce for the commercial customers that we serve. This market was typically dominated by AT&T, Sprint and MCI (national long-distance carriers) but now offers additional growth opportunities for the incumbent local exchange companies as they are able to service multi-location customers with offices located outside of their local calling area.

Pricing pressure has existed for several years in the telecommunications industry and is expected to continue, and this is coupled with the introduction of new technologies, such as VoIP, which seek to provide voice communications at a cost below that of traditional circuit-switched service. In addition, wireless carriers have marketed their services as an alternative to traditional long-distance and local services, further increasing competition and consumer choice. Reductions in prices charged by competitors may have a material adverse effect on us. Cable companies have entered the telecommunications business, and this development may increase the competition faced by the Company.

The ILECs are well-capitalized, well-known companies that have the capacity to "bundle" other services, such as local and wireless telephone services and high speed Internet access, with long-distance telephone services. The ILECs' name recognition in their existing markets, the established relationships that they have with their existing local service customers, their ability to take advantage of those relationships, and the possibility that interpretations of the 1996 Act may be favorable to the ILECs, also make it more difficult for us to compete with them.

Government Regulation

Telecommunications industry

The telecommunications industry is subject to government regulation at federal, state and local levels. Any change in current government regulation regarding telecommunications pricing, system access, consumer protection or other relevant legislation could have a material impact on our results of operations. Most of our current operations are subject to regulation by the Federal Communications Commission ("FCC") under the Communications Act of 1934. In addition, certain of our operations are subject to regulation by state public utility or public service commissions. Changes in the regulation of, or the enactment of changes in interpretation of, legislation affecting us could damage our operations and lower the price of our common stock.

The 1996 Act, among other things, allows the Regional Bell Operating Companies ("RBOC") and others to enter the long-distance business. Entry of the RBOCs or other entities, such as electric utilities and cable television companies, into the long-distance business may have a negative impact on our business or our customers. We anticipate that some of these entrants will prove to be strong competitors because they are better capitalized, already have substantial customer bases, and enjoy cost advantages relating to local telecom lines and access charges. This could adversely impact the results of our operations, which could have a negative effect on the price of our common stock. In addition, the 1996 Act provides that state proceedings may in certain instances determine access charges we are required to pay to the local exchange carriers. If these proceedings occur, rates could increase which could lead to a loss of customers, weaker operating results and the lowering of the price of our common stock.

Overview of Federal Regulation

As a carrier offering telecommunications services to the public, we are subject to the provisions of the Communications Act of 1934, as amended, and FCC regulations issued thereunder. These regulations require us, among other things, to offer our regulated services to the public on a non-discriminatory basis at just and reasonable rates. We are subject to FCC requirements that we obtain prior FCC approval for transactions that would cause a transfer of control of one or more regulated subsidiaries. Such approval requirements may delay, prevent or deter transactions that could result in a transfer of control of our company.

International Service Regulation. We possess authority from the FCC, granted pursuant to Section 214 of the Communications Act of 1934, to provide international telecommunications service. The FCC has streamlined regulation of competitive international services and has removed certain restrictions against providing certain services. Presently, the FCC is considering a number of international service issues that may further alter the regulatory regime applicable to us. For instance, the FCC is considering revisions to the rules regarding the rates that international carriers like us pay for termination of calls to mobile phones located abroad.

Pursuant to FCC rules, we have cancelled our international and domestic FCC tariffs and replaced them with a general service agreement and price lists. As required by FCC rules, we have posted these materials on our Internet web site. The "detariffing" of our services has given us greater pricing flexibility for our services, but we are not entitled to the legal protection provided by the "filed rate doctrine," which generally provides protections to carriers from legal actions by customers that challenge the terms and conditions of service.

Interstate Service Regulation. As an inter-exchange carrier ("IXC"), our interstate telecommunications services are regulated by the FCC. While we are not required to obtain FCC approval to begin or expand our interstate operations, we are required to obtain FCC approvals for certain transactions that would affect our ownership or the services we provide. Additionally, we must file various reports and pay certain fees and assessments. We are subject to the FCC's complaint jurisdiction and must contribute to the federal Universal Service Fund ("USF"). We must also comply with the Communications Assistance for Law Enforcement Act ("CALEA"), and certain FCC regulations which require telecommunications common carriers to modify their networks to allow law enforcement authorities to perform electronic surveillance.

Overview of State Regulation

Through certain of our subsidiaries, we are authorized to provide intrastate interexchange telecommunications services

and, in certain states, are authorized to provide competitive local exchange services by virtue of certificates granted by state public service commissions. Our regulated subsidiaries must comply with state laws applicable to all similarly certified carriers including the regulation of services, payment of regulatory fees and preparation and submission of reports. The adoption of new regulations or changes to existing regulations may adversely affect our ability to provide telecommunications services. Consumers may file complaints against us at the public service commissions. The certificates

of authority we hold can be generally conditioned, modified, cancelled, terminated or revoked by state public service commissions. Further, many states require prior approval or notification for certain stock or asset transactions, or in some states, for the issuance of securities, debts, guarantees or other financial transactions. Such approvals can delay or prevent certain transactions.

Overview of Ongoing Policy Issues

Local Service. Through the 1996 Act, Congress sought to establish a competitive and deregulated national policy framework for advanced telecommunications and information technologies. To date, local exchange competition has not progressed to a point where significant regulatory intervention is no longer required. Regulators believed that a "hands-off" policy would drive local exchange service into an adequately competitive market, but there continues to be a strong need for policy issue clarification and construction. Some policy changes have been addressed through the court system, not the regulatory system. For instance, the FCC has attempted several times to develop a list of UNEs which are portions of the ILEC networks and services that must be sold separately to competitors. On several occasions, the courts have rejected the FCC's approach to defining UNEs. The FCC's most recent attempt to develop rules, the Triennial Review Order, was vacated by the U.S. Circuit Court of Appeals in Washington D.C. on March 4, 2004. The Court's ruling went into effect on June 16, 2004. Since then, several competitive carriers have filed appeals with the U.S. Supreme Court, seeking a stay and review of the U.S. Circuit Court's ruling. Those requests for appeal are still pending. At the same time, the FCC is expected to issue interim rules regarding access to, and pricing of, UNEs that will be in effect until permanent rules are issued by the FCC. However, if the U.S. Supreme Court agrees to review the decision of the U.S. Circuit Court and issues a stay of that lower court's decision, then the effective date of the U.S. Circuit Court's ruling and the effectiveness of the FCC's interim rules could be substantially delayed. We are unable to determine the outcome of these proceedings; however, the inability to purchase UNEs or price increase related to the interim rules could increase our costs for providing local service, or prevent us from providing the service altogether.

Universal Service Fund. In 1997, the FCC issued an order implementing Section 254 of the 1996 Act, regarding the preservation of universal telephone service. Section 254 and related regulations require all interstate and certain international telecommunications carriers to contribute toward the USF, a fund that provides subsidies for the provision of service to schools and libraries, rural health care providers, low income consumers and consumers in high cost areas.

Quarterly, the Universal Service Administrative Company ("USAC"), which oversees the USF, reviews the need for program funding and determines the applicable USF contribution percentage that interstate telecommunications carriers must contribute. While carriers are permitted to pass through the USF charges to consumers, the FCC has strictly limited amounts passed through to consumers in excess of a carrier's determined contribution percentage.

As discussed below, the industry is moving from traditional circuit-switched telephone service to digitized IP-based communications. It is possible that this trend could threaten the amount of revenues USAC can collect through the USF system, and that the resulting revenue shortfall could prevent the system from meeting its funding demands. Separately from the FCC's inquiry into the regulation of IP-based voice service, the FCC could exercise its so called "permissive authority" under the 1996 Act and assess USF contribution on VoIP providers. To date, only some VoIP providers contribute to the USF. If VoIP providers were exempted from USF contributions, telecommunications carriers would likely pay significantly higher USF contributions; conversely, if VoIP providers were required to contribute, traditional telecommunications carriers would contribute less. In addition to the FCC, Congress is considering this issue. Current Congressional debates are divided over whether IP-based telephony service providers should be required to contribute to the USF. A decision to require VoIP providers to contribute to the USF may adversely affect our provision of VoIP services.

VoIP Notice of Proposed Rule Making. In March 2004, the FCC issued the VoIP Notice of Proposed Rulemaking to solicit comments on many aspects of the regulatory treatment of VoIP services (the "VoIP NPRM"). The FCC continues to consider the possibility of regulating access to IP-based services, but has not yet decided on the appropriate level of regulatory intervention for IP-based service applications. Should the FCC rule that our software-based solution for VoIP deployment, and other similar service applications should be regulated, our VoIP services may be adversely affected.

Further, the VoIP NPRM will likely address the applicability of access charges to VoIP services. Access charges provide compensation to local exchange carriers for traffic that originates or terminates on their networks. Certain LECs have argued that certain types of VoIP carriers provide the same basic functionality as traditional telephone service carriers, in that they carry a customer's call from an origination point to a termination destination. Any ruling or decision from the FCC requiring VoIP carriers to pay access charges to ILECs for local loop use may adversely affect our VoIP services.

The VoIP NPRM is also expected to address the extent to which CALEA will be applicable to VoIP services. Recently, in a separate proceeding, the Federal Bureau of Investigation and other federal agencies have asked the FCC to clarify that VoIP is a telecommunications service, for the purpose of subjecting VoIP to CALEA's wiretapping requirements.

Broadband Deployment. Broadband refers to any platform capable of providing high bandwidth-intensive content and advanced telecommunications capability. The FCC's stated goal for broadband services is to establish regulatory policies that promote competition, innovation and investment in broadband services and facilities. Broadband technologies encompass evolving high-speed digital technologies that offer integrated access to voice, high-speed data, video-on-demand or interactive delivery services. The FCC is seeking to 1) encourage the ubiquitous availability of broadband access to the Internet, 2) promote competition across different platforms for broadband services, 3) ensure that broadband services exist in a minimal regulatory environment that promotes investment and innovation and 4) develop an analytical framework that is consistent, to the extent possible, across multiple platforms. The FCC has opened several inquiries to determine how to promote the availability of advanced telecommunications capability with the goal of removing barriers to deployment, encouraging competition and promoting broadband infrastructure investment. For instance, the FCC is considering the appropriate regulatory requirements for ILEC provision of domestic broadband telecommunications services. The FCC's concern is whether the application of traditional common carrier regulations to ILEC-provided broadband telecommunications services is appropriate. Under existing regulations, ILECs are treated as dominant carriers absent a specific finding to the contrary for a particular market and, as dominant carriers, are subject to numerous regulations, such as tariff filing and pricing requirements.

On February 7, 2002, the FCC released its third biennial report on the availability of broadband, in which it concluded that broadband is being deployed in a reasonable and timely manner. The report showed that the advanced telecommunications services market continues to grow and that the availability of and subscribership to high-speed services increased significantly since the last report. Additionally, the report noted that investment in infrastructure for advanced telecommunications remains strong. The data in the report is gathered largely from standardized information from providers of advanced telecommunications capability including wireline telephone companies, cable providers, wireless providers, satellite providers, and any other facilities-based providers of 250 or more high-speed service lines (or wireless channels) in a given state.

Internet Service Regulation. The demand for high-speed Internet access has increased significantly over the past several years as consumers increase their Internet use. The FCC is active in reviewing the need for regulatory oversight of Internet services and to date has advocated less regulation and more market-based competition for broadband providers. The FCC's stated policy is to promote the continued development of the Internet and other interactive computer-based communications services. We cannot be certain that the FCC will continue to take a deregulatory approach to the Internet. Should the FCC increase regulatory oversight of Internet services, our costs could increase for providing those services.

Recent legislation in the United States (including the Sarbanes-Oxley Act of 2002) is increasing the scope and cost of work provided to us by our independent auditors and legal advisors. Many guidelines have not yet been finalized and there is a risk that we will incur significant costs in the future to comply with legislative requirements or rules, pronouncements and guidelines by regulatory bodies, including the cost of restating previously reported financial results, thereby reducing profitability.

Critical Accounting Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to intangible assets, contingencies, collectibility of receivables and litigation. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The critical accounting estimates used in the preparation of our consolidated financial statements are discussed in our Annual Report on Form 10-K for the year ended December 31, 2003. To aid in the understanding of our financial reporting, a

summary of significant accounting policies are described in Note 3 of Consolidated Financial Statements and Notes thereto included in Item 1 of this report. These policies have the potential to have a more significant impact on our financial statements, either because of the

significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

Liquidity and Capital Resources

The Company has incurred substantial operating losses and negative cash flows from operations since inception. At June 30, 2004 the Company had a stockholders' deficit of \$51,672 (\$42,953 – December 31, 2003), negative working capital of \$20,413 (\$26,576 – December 31, 2003), amounts due to its controlling shareholder of \$42,122 (\$28,717 – December 31, 2003) and \$7,154 (\$12,127 – December 31, 2003) owing under its revolving credit facility (included in working capital). There are \$nil additional borrowings available under the revolving credit facility at June 30, 2004.

The related party debt is owed to the Company's controlling shareholder, Counsel Corporation (collectively with all its subsidiaries "Counsel") and is due at December 31, 2005, subject to certain contingent acceleration clauses linked to the raising of capital. In addition to the Company's expectation of raising funds in the remainder of 2004 from third parties, the Company has a funding commitment from Counsel to fund, through long-term intercompany advances or equity contributions, all capital investment, working capital or other operational cash requirements (the "Keep Well") through June 30, 2005. During the first six months of 2004, Counsel advanced the Company \$9,439 under the Keep Well, and converted \$1,929 of accrued interest into principal.

The revolving credit facility is provided by an asset based lender. The asset based lender is secured by a first lien on all of the assets of ACC. Borrowings under the facility are based on various advance rates of the accounts receivable base subject to certain reductions and covenants. Amounts available under the asset based facility are subject to change based upon the level of receivables and other related factors, such as the aging of accounts, customer concentrations, etc. Borrowings under this facility are classified as a current liability due to the demand nature of the borrowings. The facility matures on June 30, 2005. The Company is looking to extend the term of the facility beyond its current maturity date, or to replace the facility prior to maturity.

In August 2004, the Company implemented a resizing of the organization targeted at reducing its operating costs. The cost cutting reflects both the continued efficiencies created by the ongoing integration of the Company's operations, related to its four acquisitions over the last three years, and management's commitment to its objective of achieving break-even operating income by the end of 2004, despite softening revenue and regulatory uncertainty. Approximately 20 percent of the Company's work force has been removed from the organization. The reduction affected staff in the San Diego, Pittsburgh and Somerset facilities. The Company anticipates that it will record expenses of between \$1,000 and \$2,000 during the third quarter ended September 30, 2004 related to this restructuring. Restructuring charges will include employee reduction costs and lease termination costs and may include additional charges related to potential asset impairments.

The Company does not expect to generate net cash flow from operating activities in the remainder of 2004. The Company expects that funding to support its operations will be derived from proceeds from a third party fund raise which may take the form of debt, equity or a hybrid instrument, or from the proceeds on the sale of assets in addition to advances under the Keep Well. In the first half of 2004, the Company was funded primarily by increases in related party debt and from the proceeds on the sale of the shares held in BUI.

Management intends to raise funds from third parties to support the operating needs of the business. Use of funds from such arrangements may include such uses as funding operations, improving working capital, repaying obligations of the business and funding future merger and acquisition activities. There can be no assurance that the Company's capital raising efforts will be successful or can occur on favorable terms to existing security or debt holders.

There continues to be no assurance that the Company will be able to improve its cash flow from operations, obtain additional third party financing, extend, repay or refinance its debt with Counsel or its asset based lender on favorable terms, or obtain an extension of the existing funding commitment from Counsel or its asset based lender beyond their respective maturity dates. This circumstance raises substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets and liquidation of liabilities that may result from this uncertainty.

Cash Position

Cash and cash equivalents as of June 30, 2004 were \$2,357 compared to \$2,033 at December 31, 2003.

Cash flows from operating activities

Our working capital deficit decreased to \$20,413 as of June 30, 2004, from \$26,576 as of December 31, 2003. The decrease in our working capital deficit is primarily related to the decrease in our revolving credit facility of \$4,973 due to payments made to our asset based lender during the first half of the year, the decrease in our unearned revenue of \$4,182 since December 31, 2003 due principally to the recognition of revenue as cash receipts associated with our non-recurring network service offering became unencumbered, and a reduction in our accounts payable and accrued expenses of \$1,021. This was partially offset by a decrease in our accounts receivable of \$3,666 during the first half of 2004.

Cash used by operating activities during the six months ended June 30, 2004 was \$4,852 as compared to \$5,085 during the same period in 2003. The net decrease in cash used in 2004 was primarily due to an \$11,176 decrease in net loss to \$9,423 for the first six months of 2004 from a net loss of \$20,599 for the same period in 2003.

Cash flows from investing activities

Net cash provided by investing activities during the six months ended June 30, 2004 was \$3,189 as compared to net cash used of \$1,145 for the same period in 2003. In the first half of 2004, net cash provided by investing activities relates to \$3,582 in proceeds received from the sale of common stock in BUI received as consideration for the sale of the ILC operations in May 2003, offset by the purchase of equipment in the amount of \$393.

Cash flows from financing activities

Financing activities provided net cash of \$1,987 during the six months ended June 30, 2004 as compared to \$4,658 for the same period in 2003. The decrease from 2003 to 2004 is due primarily to repayment of \$4,973 on our revolving credit facility during the first half of 2004, as opposed to receipt of \$5,762 during the same period in 2003, repayment of a note payable of \$1,104 in the second quarter of 2004 as final settlement of the acquisition of certain assets of the former assets of RSL, scheduled lease and note payable payments of \$1,390, offset by the receipt of \$9,439 in funding from Counsel in the first half of 2004, compared to receiving \$100 from Counsel during the same period in 2003.

Supplemental Statistical and Financial Data

The following data is provided for additional information about our operations. It should be read in conjunction with the quarterly segment analysis provided herein. All amounts below are unaudited.

(In millions of dollars, except where indicated)	2003				2004	
	Q1	Q2	Q3	Q4	Q1	Q2
Gross revenues — product mix						
Domestic long-distance	\$ 7.8	\$ 7.8	\$ 7.4	\$ 7.5	\$ 6.4	\$
International long-distance	12.8	14.4	15.3	15.1	13.0	
Local dial tone	—	—	—	—	0.1	
MRC/USF ⁽¹⁾	2.3	2.4	2.8	3.0	3.0	
Dedicated voice	0.4	0.3	0.4	0.4	0.3	
Direct sales revenues	7.1	6.8	5.9	5.9	5.4	
Other	—	0.1	0.2	—	0.1	
Total telecommunications revenue	\$ 30.4	\$ 31.8	\$ 32.0	\$ 31.9	\$ 28.3	\$
Network service offering	—	4.1	3.1	0.4	6.4	
Technology licensing and development	—	1.1	1.0	0.1	0.5	
Total revenues	\$ 30.4	\$ 37.0	\$ 36.1	\$ 32.4	\$ 35.2	\$
Gross revenues — product mix (minutes)						
Domestic long-distance ⁽⁵⁾	135,236,248	140,798,912	134,198,098	121,880,023	129,277,406	134,649,
International long-distance	83,191,655	93,896,850	98,873,877	98,978,290	91,288,985	83,923,
Dedicated voice	9,571,155	7,772,277	9,364,583	8,653,038	9,653,915	9,374,
Active Retail Subscribers (in number of people):						
<u>Dial-around ⁽²⁾</u>						
Beginning of Period	199,375	228,330	215,187	206,937	192,678	164,
Adds	112,223	85,246	100,624	63,349	46,518	40,
Churn	(83,268)	(98,389)	(108,874)	(77,608)	(74,865)	(65,
End of Period	228,330	215,187	206,937	192,678	164,331	138,
<u>Local dial tone</u>						
Beginning of Period	—	—	—	—	—	2,
Adds	—	—	—	—	3,112	10,
Churn	—	—	—	—	(217)	(2,
End of Period	—	—	—	—	2,895	11,
<u>1+⁽³⁾</u>						
Beginning of Period	72,008	136,896	174,486	168,242	161,570	165,
Adds	109,646	81,040	43,964	25,356	25,344	27,
Churn	(44,758)	(43,450)	(50,208)	(32,028)	(21,067)	(20,
End of Period	136,896	174,486	168,242	161,570	165,847	172,
Total subscribers (End of Period)	365,226	389,673	375,179	354,248	333,073	322,
<u>Direct Sales⁽⁶⁾</u>						
Active Customer Base	276	254	236	227	256	
Total top 10 billing	\$ 1,243	\$ 1,163	\$ 1,094	\$ 1,050	\$ 926	\$ 1,
Avg monthly revenue per user (active subscriptions) in absolute						

dollars:⁽⁴⁾

Dial- around	\$	21.61	\$	20.60	\$	22.07	\$	23.01	\$	20.89	\$	2
Local dial tone	\$	—	\$	—	\$	—	\$	—	\$	11.51	\$	2
1+	\$	20.70	\$	22.16	\$	24.17	\$	26.20	\$	24.92	\$	2

Telecommunications revenue by customer type:

Dial- around	\$	14.8	\$	13.3	\$	13.7	\$	13.3	\$	10.3	\$	
1+		8.5		11.6		12.2		12.7		12.4		
Local dial tone		—		—		—		—		0.1		
Direct sales		7.1		6.8		5.9		5.9		5.4		
Other		—		0.1		0.2		—		0.1		

Total telecommunications revenues	\$	30.4	\$	31.8	\$	32.0	\$	31.9	\$	28.3	\$	:
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(continued on following page)

(In millions of dollars, except where indicated)	2003				2004	
	Q1	Q2	Q3	Q4	Q1	Q2
Gross revenue — product mix (%):						
Domestic long-distance	25.6%	24.6%	23.1%	23.5%	22.6%	21.4%
International long-distance	42.1%	45.3%	47.8%	47.3%	45.9%	43.1%
Local dial tone	—	—	—	—	0.4%	3.8%
MRC/USF ⁽¹⁾	7.6%	7.5%	8.8%	9.4%	10.6%	10.3%
Dedicated voice	1.3%	0.9%	1.3%	1.3%	1.0%	1.1%
Direct sales revenues	23.4%	21.4%	18.4%	18.5%	19.1%	19.5%
Other	—	0.3%	0.6%	0.0%	0.4%	0.8%
Total telecommunications revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1 MRC/USF represents “Monthly Recurring Charges” and “Universal Service Fund” fees charged to the customers.

2 “Dial- around” refers to a product which allows a customer to make a call from any phone by dialing a 10-10-XXX prefix.

3 “1 +” refers to a product which allows a retail customer to directly make a long- distance call from their own phone by dialing “1” plus the destination number.

4 Average monthly revenues per user is calculated as the revenues of the quarter divided by the number of users at the end divided by 3 to get per month.

5 Includes Local Product Line Bulk/Package Rate Domestic Minutes

6 Represents Number of Parent Customers with Revenues greater than \$0 in each calendar month.

Management Discussion of Operations

The following table displays the Company’s consolidated quarterly results of operations for the eight quarters ended June 30, 2004.

	Q3	2002 Q4	Q1	Q2	2003 Q3	Q4	Q1
		(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	(as resta
Revenues:							
Telecommunications (excluding network service offering shown below)	\$19,835	\$ 21,622	\$ 30,367	\$31,853	\$31,923	\$31,994	\$28,36
Network service offering	—	—	—	4,142	3,079	408	6,36
Technologies	321	47	—	1,050	1,049	64	45
Total	20,156	21,669	30,367	37,045	36,051	32,466	35,17
Operating costs and expenses:							
Telecommunication network expense (exclusive of depreciation							

shown below)	11,197	12,235	19,543	19,154	19,266	18,936	16,63
Network service offering	—	1,995	6,205	2,165	807	(70)	—
Selling, general, administrative and other	7,389	9,779	14,225	14,617	13,981	14,441	14,76
Provision for doubtful accounts	1,119	2,274	1,175	1,131	1,466	1,666	1,22
Research and development	317	234	—	—	—	—	—
Depreciation and amortization	985	1,245	1,826	1,758	1,993	1,548	1,70
	<u>21,007</u>	<u>27,762</u>	<u>42,974</u>	<u>38,825</u>	<u>37,513</u>	<u>36,521</u>	<u>34,32</u>
Total operating costs and expenses							
Operating income (loss)	(851)	(6,093)	(12,607)	(1,780)	(1,462)	(4,055)	84
Other income (expense):							
Interest expense	(1,777)	(2,184)	(2,915)	(3,394)	(3,398)	(3,562)	(3,53)
Interest and other income	152	224	2	1	53	1,160	1,37
	<u>152</u>	<u>224</u>	<u>2</u>	<u>1</u>	<u>53</u>	<u>1,160</u>	<u>1,37</u>
Total other income (expense)	(1,625)	(1,960)	(2,913)	(3,393)	(3,345)	(2,402)	(2,15)
	<u>(1,625)</u>	<u>(1,960)</u>	<u>(2,913)</u>	<u>(3,393)</u>	<u>(3,345)</u>	<u>(2,402)</u>	<u>(2,15)</u>
Income (loss) from continuing operations	(2,476)	(8,053)	(15,520)	(5,173)	(4,807)	(6,457)	(1,31)
Gain (loss) from discontinued operations, net of \$0 tax	(1,463)	(3,365)	(277)	371	213	222	10
	<u>(1,463)</u>	<u>(3,365)</u>	<u>(277)</u>	<u>371</u>	<u>213</u>	<u>222</u>	<u>10</u>
Net income (loss)	<u>\$ (3,939)</u>	<u>\$ (11,418)</u>	<u>\$ (15,797)</u>	<u>\$ (4,802)</u>	<u>\$ (4,594)</u>	<u>\$ (6,235)</u>	<u>\$ (1,20)</u>

Three-Month Period Ended June 30, 2004 Compared to Three-Month Period Ended June 30, 2003

In order to more fully understand the comparison of the results of continuing operations for the three months ended June 30, 2004 as compared to the same period in 2003, it is important to note the following significant changes in our operations that occurred:

- In July 2003, we completed the acquisition of Transpoint. The operations of Transpoint have been included in the statement of operations for the second quarter of 2004. However, there were no such operations in the second quarter of 2003.
- In November 2002, we began to sell a network service offering obtained from a new supplier. The sale of that product ceased in late July 2003. Revenue from this offering is recognized using the unencumbered cash method. In the second quarter of 2004, \$190 was recognized in income compared to \$4,142 in the same quarter of 2003. Expenses associated with this offering were recorded when incurred. In the second quarter of 2004 the Company recorded a recovery of \$203 in telecommunications network costs compared to incurring a cost of \$2,165 during the same period in 2003. The cessation of this product offering does not qualify as discontinued operations under generally accepted accounting principles.
- In January 2004, the Company commenced offering local dial tone services via the UNE-P. By June 30, 2004 services were being offered in five states and the Company had approximately 11,000 local customers on the service. In the second half of the year the Company expects to expand this service into additional states.

Revenues

Telecommunications services revenue decreased \$5,624 to \$26,229 in the second quarter of 2004 as compared to \$31,853 during the same period in 2003 (excluding revenues from our network service offering of \$190 and \$4,142, respectively). The primary reason for the decrease related to:

- We continue to experience customer attrition particularly with our 10-10-XXX customer base which we have not marketed directly since 2002.
- We have also seen the average revenue per user ("ARPU") decline. We attribute this to increased cellular penetration and deregulation in various countries which have lower rates per month in those markets. This was most evident in India in 2004.
- In the first quarter of 2004, the Company commenced its efforts to attract local dial tone customers under the UNE-P platform, which are expected to be longer term and higher revenue generating than 1+ customers. At the end of the current quarter, the Company was offering such service in five states, New Jersey, New York, Massachusetts, Pennsylvania and Florida.
- See supplemental, statistical and financial data disclosed herein.

Technology licensing and related services revenue was \$90 in the second quarter of 2004 as compared to \$1,050 in the second quarter of 2003.

Operating costs and expenses

Telecommunications network expense was \$15,680 in the three months ended June 30, 2004 as compared to \$19,154 during the same period in 2003 (excluding costs associated with our network service offering of (\$203) and \$2,165, respectively).

Telecommunications services margins (telecommunications services revenues less telecommunications network expenses) continue to fluctuate significantly from period to period, and are expected to continue to fluctuate significantly for the foreseeable future. Predicting whether margins will increase or decline is difficult to estimate with certainty. Factors that have affected and continue to affect margins include:

- Differences in attributes associated with the various long-distance programs in place at the Company. The effectiveness of each offering can change margins significantly from period to period. Some factors that affect the

effectiveness of any program include the ongoing deregulation of phone services in various countries where customer traffic terminates, actions and reactions by competitors to market pricing, the trend toward bundled service offerings and the increasing level of wireline to cellular connections. In addition, changes in customer traffic patterns also increase and decrease our margins.

- Our frame relay network and voice network. Each network has a significant fixed cost element and a minor variable per minute cost of traffic carried element; significant fluctuations in the number of minutes carried from month to month can significantly affect the margin percentage from period to period.
- Changes in contribution rates to the USF and other regulatory changes associated with the fund. Such changes include increases and decreases in contribution rates, changes in the method of determining assessments, changes in the definition of assessable revenue, and the limitation that USF contributions collected from customers can no longer exceed contributions.

Our selling, general, administrative and other expense was \$14,074 in the three months ended June 30, 2004 as compared to \$14,617 during the same period of 2003. The reduction in operating costs is due to a reduction in sales commission related to lower revenue offset by an increase in legal fees associated with the Company's patent infringement strategy and the defense of the Company and its officers in a derivative lawsuit (more fully described in note 13 of the condensed unaudited financial statements).

The provision for doubtful accounts was \$1,740 in the three months ended June 30, 2004 as compared to \$1,131 for the same period of 2003. The provision for doubtful accounts as a percent of revenue, excluding revenue from our network service offering, was approximately 6.6% for the three months ended June 30, 2004, versus approximately 3.4% for the three months ended June 30, 2003. Management is taking steps to bring the bad debt provision more into line with historical averages by tightening the credit granting process.

The Company commenced a research and development program incurring costs of \$106 in the second quarter of 2004. This program is expected to allow the Company to provide enhanced telecommunication services to its customer base in the near term. The Company did not carry out any research and development work in 2003.

Depreciation and amortization was \$1,653 in the three months ended June 30, 2004 compared to \$1,758 during the same period of 2003.

Other income (expense)

Interest expense totaled \$2,487 in the second quarter of 2004, of which \$1,708 is pursuant to related party debt, compared to the second quarter of 2003, when \$2,309 of the interest expense of \$3,394 was pursuant to related party debt. Included in the interest expense for the second quarter of 2004 is BCF of \$667, compared to \$1,186 for the same period in 2003. Third party interest is lower in the second quarter of 2004 compared to the same period in 2003, due to lower average outstanding balance on the asset based facility partially offset by an increase in interest expense on regulatory amounts owing.

Interest and other income was \$812 for the second quarter of 2004 compared to \$1 during the second quarter of 2003. The increase of \$811 related to the gain on the sale of shares of BUI common stock during second quarter of 2004.

Discontinued Operations

In the second quarter of 2004, there was no gain or loss from discontinued operations recorded, compared to the \$371 gain reported in second quarter of 2003 related to the sale of the ILC business.

Segment Profitability

For the quarter ended June 30, 2004, our Telecommunications segment realized an operating segment loss of \$5,819, while our Technologies segment recorded an operating segment loss of \$486. We anticipate that through revenue growth and continued control of expenses, both segments will report operating income in future quarters. The measures of operating segment loss discussed above exclude \$1,911 of net expenses that are not allocated to a specific segment. These consist primarily of selling, general and administrative costs, as well as \$2,490 of interest expense, net of an \$812 gain on the sale of

the balance of our holdings in BUI common stock.

31

Six-Month Period Ended June 30, 2004 Compared to Six-Month Period Ended June 30, 2003

In order to more fully understand the comparison of the results of continuing operations for the six months ended June 30, 2004 as compared to the same period in 2003, it is important to note the following significant changes in our operations that occurred:

- In July 2003, we completed the acquisition of Transpoint. The operations of Transpoint have been included in the statement of operations for the six months ended June 30, 2004. However, there were no such operations in the same period of 2003.
- In November 2002, we began to sell a network service offering obtained from a new supplier. The sale of that product ceased in late July 2003. Revenue from this offering is recognized using the unencumbered cash method. In the first half of 2004, \$6,553 was recognized in income compared to \$4,142 in the same quarter of 2003. Expenses associated with this offering were recorded when incurred. In the second quarter of 2004 the Company recorded a recovery of \$203 in telecommunications network costs compared to incurring a cost of \$8,370 during the same period in 2003. The cessation of this product offering does not qualify as discontinued operations under generally accepted accounting principles.
- In January 2004, the Company commenced offering local dial tone services via the UNE-P. By June 30, 2004 services were being offered in five states and the Company had approximately local 11,000 customers.

Revenues

Telecommunications services revenue decreased \$7,631 to \$54,589 in the six month period ended June 30, 2004 as compared to \$62,220 in the same period during 2003 (excluding revenues from our network service offering). The primary reason for the decrease related to:

- We continue to experience customer attrition particularly with our 10-10-XXX customer base which we have not marketed directly since 2002.
- We have also seen the average revenue per user ("ARPU") decline. We attribute this to increased cellular penetration and deregulation in various countries which have lower rates per month in those markets. This was most evident in India in 2004.
- In the first quarter of 2004, the Company commenced its efforts to attract local dial tone customers under the UNE-P platform, which are expected to be longer term and higher revenue generating than 1+ customers. At the end of the current quarter, the Company was offering such service in five states, New Jersey, New York, Massachusetts, Pennsylvania and Florida.
- See supplemental, statistical and financial data disclosed herein.

Technology licensing and related services revenue was \$540 in the first half of 2004 as compared to \$1,050 in the same period of 2003. In the first six months of 2003, the Company recorded revenue from the AccessLine contract. The revenue in 2004 relates to a contract that was entered into with a Japanese company in the third quarter of 2003. Under the terms of the contract, we earned \$540 based on the receipt of funds related to the delivery of product in 2003. The Company has no continuing obligation related to this contract. Technology licensing revenues are project-based and, as such, these revenues will vary from period to period based on timing and size of technology licensing projects and payments.

Operating costs and expenses

Telecommunications network expense was \$32,315 in the six months ended June 30, 2004 as compared to \$38,697 during the same period in 2003 (excluding costs associated with our network service offering of (\$203) and \$8,371, respectively).

Telecommunications services margins (telecommunications services revenues less telecommunications network expenses) continue to fluctuate significantly from period to period, and are expected to continue to fluctuate significantly for the foreseeable future. Predicting whether margins will increase or decline is difficult to estimate with certainty. Factors that

have affected and continue to affect margins include:

- Differences in attributes associated with the various long-distance programs in place at the Company. The effectiveness of each offering can change margins significantly from period to period. Some factors that affect the effectiveness of any program include the ongoing deregulation of phone services in various countries where customer

traffic terminates, actions and reactions by competitors to market pricing, the trend toward bundled service offerings and the increasing level of wireline to cellular connections. In addition, changes in customer traffic patterns also increase and decrease our margins.

- Our frame relay network and voice network. Each network has a significant fixed cost element and a minor variable per minute cost of traffic carried element; significant fluctuations in the number of minutes carried from month to month can significantly affect the margin percentage from period to period.
- Changes in contribution rates to the USF and other regulatory changes associated with the fund. Such changes include increases and decreases in contribution rates, changes in the method of determining assessments, changes in the definition of assessable revenue, and the limitation that USF contributions collected from customers can no longer exceed contributions.

Our selling, general, administrative and other expense was \$28,834 in the six months ended June 30, 2004 as compared to \$28,841 during the same period of 2003.

The Company commenced a research and development program incurring costs of \$106 in the first half of 2004. This program is expected to allow the Company to provide enhanced telecommunication services to its customer base in the near term. The Company did not carry out any research and development work in 2003.

The provision for doubtful accounts was \$2,967 in the six months ended June 30, 2004 as compared to \$2,306 for the same period of 2003. The provision for doubtful accounts as a percent of revenue, excluding revenue from our network service offering, was approximately 5.4% for the six months ended June 30, 2004, versus approximately 3.6% for the six months ended June 30, 2003. Management is taking steps to bring the bad debt provision more into line with historical averages by tightening the credit granting process.

Depreciation and amortization was \$3,357 in the six months ended June 30, 2004 compared to \$3,584 during the same period of 2003.

Other income (expense)

Interest expense totaled \$6,022 in the six months ended June 30, 2004, of which \$4,397 is pursuant to related party debt, compared to the same period in 2003, when \$4,113 of the interest expense of \$6,309 was pursuant to related party debt. Included in the interest expense for the six months ended June 30, 2004 is BCF of \$2,536, compared to \$2,183 for the same period in 2003. Third party interest is lower in the first half of 2004 compared to the same period in 2003, due to lower average outstanding balance on the asset based facility partially offset by an increase in interest expense on regulatory amounts owing.

Interest and other income increased \$2,186 to \$2,189 for the six months ended June 30, 2004 from \$3 during the same period of 2003. The increase is primarily due to a gain of \$767 related to the discharge of certain obligations associated with our former participation with a consortium of owners in an indefeasible right of usage, and a gain of \$1,376 from our sale of shares of BUI common stock in the first six months of 2004.

Discontinued Operations

In the first half of 2004, we recorded a gain from discontinued operations of \$104 related to the sale of our ILC operations to BUI entered into in December 2002. The sale closed on May 1, 2003. Contingent shares (10,714) of BUI stock were earned during the three months ended March 31, 2004, with a value of \$104. In the first half of 2003, we recorded a gain from discontinued operations of \$94 related to the sale of the ILC business.

Segment Profitability

For the six months ended June 30, 2004, our Telecommunications segment realized an operating segment loss of \$4,644, while our Technologies segment recorded an operating segment loss of \$407. We anticipate that through revenue growth and continued control of expenses, both segments will report operating income in future quarters. The measures of operating segment income and loss discussed above exclude \$4,476 of net income and expenses that are not allocated to a specific

segment. These consist primarily of selling, general and administrative costs, as well as \$5,872 of interest expense, net of a \$1,376 gain on the sale of our holdings in BUI common stock and a gain of \$767 recognized on the discharge of an obligation during the first quarter of 2004.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk.

Our exposure to market risk is limited to interest rate sensitivity, which is affected by changes in the general level of United States interest rates. Our cash equivalents are invested with high quality issuers and we limit the amount of credit exposure to any one issuer. Due to the short-term nature of the cash equivalents, we believe that we are not subject to any material interest rate risk as it relates to interest income. As to interest expense, we have one debt instrument that has variable interest rates based on the prime rate of interest. Assuming the debt amount on our asset backed facility at June 30, 2004 were constant during the next twelve-month period, the impact of a one percent increase in the prime interest rate would be an increase in interest expense of approximately \$72 for the next twelve-month period. However, because the debt instrument is subject to an interest rate floor of 6.0%, a one percent decrease in the prime interest rate would have no impact on interest expense during the next twelve-month period. We do not believe that we are subject to material market risk on our fixed rate debt with Counsel in the near term.

We did not have any foreign currency hedges or other derivative financial instruments as of June 30, 2004. We do not enter into financial instruments for trading or speculative purposes and do not currently utilize derivative financial instruments. Our operations are conducted primarily in the United States and as such are not subject to material foreign currency exchange rate risk.

Item 4 – Controls and Procedures.

As of the end of the period covered by this quarterly report, the Company carried out, under the supervision of and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer (the "Certifying Officers"), an evaluation of the effectiveness of its "disclosure controls and procedures" (as the term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on this evaluation, the Certifying Officers have concluded that the Company's disclosure controls and procedures were not effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company's disclosure obligations under the Exchange Act, and the rules and regulations promulgated thereunder. This deficiency constitutes a material weakness, and detailed below are the facts surrounding this matter.

On September 20, 2004, management of the Company concluded that the requirements of Emerging Issues Task Force Issue No. 00-27 ("EITF 00-27"), regarding the accounting for Beneficial Conversion Features ("BCF") present on convertible debt and preferred stock instruments had not been properly applied in current and prior years to its convertible debentures issued in March 2001. While the initial accounting for the BCF at the time of the issuance of the debentures was correct, the Company failed to remeasure the BCF as required by EITF 00-27 when at subsequent dates the number of shares and effective conversion prices changes as the result of the debentures' anti-dilution provisions. These anti-dilution events and their respective impacts on the number of shares and the conversion price were disclosed in the Company's previous public filings. However, under EITF 00-27 the BCF should also have been remeasured at the date of each anti-dilution event. Additionally, the debentures called for the addition of accruing interest to the debentures, as a result of which such accruing interest is deemed to have been paid in kind ("PIK") and the Company failed, as required by EITF 00-27, to measure the BCF upon the deemed interest of the PIK convertible debentures.

This matter was raised by the Company's recently appointed independent auditors, BDO Seidman, LLP ("BDO"), in the course of their review of the Company's prior public filings. After discussions among the Company's management, BDO, and the Company's prior auditors, PricewaterhouseCoopers, LLP ("PwC"), the Company's management concluded that a correction of the prior accounting on this matter was required. The Company's management brought the matter for consideration before the Audit Committee and the full Board of Directors of the Company. Having considered the circumstances underlying the accounting errors and their effects upon the Company's prior filings, and having discussed the matter with the BDO and PwC representatives as well as the Company's management, the Audit Committee concluded that the previously issued financial statements should not be relied upon and approved and authorized the Company's management to amend certain previously filed public reports.

Additionally, management and the Audit Committee considered what changes, if any, were necessary to the Company's disclosure controls and procedures to ensure that the errors described above would not reoccur and to provide that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company's disclosure obligations under the Exchange Act, and the rules and regulations promulgated thereunder. In its review the Audit Committee noted that the errors described above (i) related principally to periods that

preceded changes the Company has already made to consolidate and upgrade its accounting staff and function, and (ii) that the errors described above did not result from the failure of the Company's disclosure controls and procedures to make known to the appropriate officials and auditors the facts concerning the Company's convertible debentures or the occurrence of the anti-dilution events. As a result management and the Audit Committee determined that education and professional development of accounting staff on the complications of EITF 00-27 and its application would be sufficient to prevent a reoccurrence. This knowledge development has occurred as of September 2004. No additional changes to the Company's disclosure controls and procedures were needed in response to the discovery of the errors described above.

Further, there were no changes in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

On April 16, 2004, certain shareholders of the Company (the “Plaintiffs”) filed a putative derivative complaint in the Superior Court of the State of California in and for the County of San Diego, (the “Complaint”) against the Company, WorldxChange Corporation (sic), Counsel Communications LLC, and Counsel Corporation as well as certain present and former officers and directors of the Company, some of whom also are or were directors and/or officers of the other corporate defendants (collectively, the “Defendants”). The Complaint alleges, inter alia, that the Defendants, in their respective roles as controlling shareholder and directors and officers of the Company committed breaches of the fiduciary duties of care, loyalty and good faith and were unjustly enriched, and that the individual Defendants committed waste of corporate assets, abuse of control and gross mismanagement. The Plaintiffs seek compensatory damages, restitution, disgorgement of allegedly unlawful profits, benefits and other compensation, attorneys’ fees and expenses in connection with the Complaint. The Company believes that these claims in their entirety are without merit and intends to vigorously defend this action. There is no assurance that this matter will be resolved in the Company’s favor and an unfavorable outcome of this matter could have a material adverse impact on its business, results of operations, financial position or liquidity.

Acceris and several of Acceris’ current and former executives and board members were named in a securities action filed in the Superior Court of the State of California in and for the County of San Diego on April 16, 2004, in which the plaintiffs made claims nearly identical to those set forth in the derivative suit above. The Company believes that these claims in their entirety are without merit and intends to vigorously defend this action. There is no assurance that this matter will be resolved in the Company’s favor and an unfavorable outcome of this matter could have a material adverse impact on its business, results of operations, financial position or liquidity.

In connection with the Company’s efforts to enforce its patent rights, Acceris Communications Technologies Inc. filed a patent infringement lawsuit against ITXC Corp. (“ITXC”) in the United States District Court of the District of New Jersey on April 14, 2004. The complaint alleges that ITXC’s VoIP services and systems infringe the Company’s U.S. Patent No. 6,243,373, entitled “Method and Apparatus for Implementing a Computer Network/Internet Telephone System.” On May 7, 2004, ITXC filed a lawsuit against Acceris Communications Technologies Inc., and the Company, in the United States District Court for the District of New Jersey for infringement of five ITXC patents relating to VoIP technology, directed generally to the transmission of telephone calls over the Internet and the completion of telephone calls by switching them off the Internet and onto a public switched telephone network. The Company believes that the allegations contained in ITXC’s complaint are, in their entirety, without merit and the Company intends to provide a vigorous defense to ITXC’s claims. There is no assurance that this matter will be resolved in the Company’s favor and an unfavorable outcome of this matter could have a material adverse impact on its business, results of operations, financial position or liquidity.

At our Adjourned Meeting of Stockholders held on December 30, 2003, our stockholders approved an amendment to our Articles of Incorporation, deleting Article VI thereof (regarding liquidations, reorganizations, mergers and the like). Stockholders who were entitled to vote at the meeting and advised us in writing, prior to the vote on the amendment, that they dissented and intended to demand payment for their shares if the amendment was effectuated, were entitled to exercise their appraisal rights and obtain payment in cash for their shares under Sections 607.1301 – 607.1333 of the Florida Business Corporation Act, provided their shares were not voted in favor of the amendment. In January 2004, appraisal notices in compliance with Florida corporate statutes were sent to all stockholders who had advised us of their intention to exercise their appraisal rights. The appraisal notices included our estimate of fair value of our shares, being \$4.00 per share on a post-split basis. These stockholders had until February 29, 2004 to return their completed appraisal notices along with certificates for the shares for which they were exercising their appraisal rights. Approximately 33 stockholders holding approximately 74,000 shares of our stock returned completed appraisal notices by February 29, 2004. A stockholder of 20 shares notified us of his acceptance of our offer of \$4.00 per share, while the stockholders of the remaining shares did not accept our offer. Subject to the qualification that we may not make any payment to a stockholder seeking appraisal rights if, at the time of payment, our total assets are less than our total liabilities, stockholders who accepted our offer to purchase their shares at the estimated fair value will be paid for their shares within 90 days of our receipt of a duly executed appraisal notice. If we should be required to make any payments to dissenting stockholders, Counsel will fund any such amounts through the purchase of shares of our common stock. Stockholders who did not accept our offer were required to indicate their own estimate of fair value. Because Acceris did not agree with the estimates submitted by many of the dissenting shareholders, Acceris has sought a judicial determination of the fair value of the common stock held by the dissenting stockholders. On June 24, 2004, Acceris filed suit against the dissenting shareholders seeking a declaratory judgment, appraisal and other relief in the Circuit Court for the 17th Judicial District in Broward County, Florida. There is no assurance that this matter will be

resolved in the Company's favor and an unfavorable outcome of this matter could have a material adverse impact on our business, results of operations, financial position or liquidity.

The Company is involved in various other legal matters arising out of its operations in the normal course of business, none of which are expected, individually or in the aggregate, to have a material adverse effect on the Company.

Item 2 – Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

During the three months and six months ending June 30, 2004, approximately 73,100 and 142,100 options, respectively, were issued to employees under the 2003 Employee Stock Option and Appreciation Rights Plan. These options are issued with exercise prices that equal or exceed fair value on the date of the grant and vest over a 4-year period subject to the grantee's continued employment with the Company. The Company relied on an exemption from registration under Section 4 (2) of the Securities Act of 1933.

Additionally, during the three months and six months ended June 30, 2004, approximately 175,000 and 600,000 warrants, respectively, have been issued under the Acceris Communications Inc. Platinum Agent Program at an exercise price of \$3.50 per share. See Note 13 to the condensed consolidated financial statements included in Part I herein for a description of the vesting provisions of these warrants. The Company relied on an exemption from registration under Regulation D under the Securities Act of 1933.

The Company did not acquire any stock of the Company in the three and six months ended June 30, 2004.

Item 3 – Defaults Upon Senior Securities.

None.

Item 4 – Submission of Matters to a Vote of Security Holders.

None.

Item 5 – Other Information.

None.

Item 6 – Exhibits and Report on Form 8-K.

(a) Exhibits

3.1 Amended and Restated Articles of Incorporation (1)

3.2 Bylaws, as amended (2)

31.1 Certification pursuant to Rule 13a-14(a) and 15d-14(a) required under Section 302 of the Sarbanes-Oxley Act of 2002 (3)

31.2 Certification pursuant to Rule 13a-14(a) and 15d-14(a) required under Section 302 of the Sarbanes-Oxley Act of 2002 (3)

32.1 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (3)

32.2 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (3)

(1) Incorporated by reference to our quarterly report on Form 10-QSB for the quarter ended June 30, 1996, file number 000-17973.

(2) Incorporated by reference to our quarterly report on Form 10-Q for the quarter ended September 30, 1998, file number

000-17973.

(3) Filed herewith.

36

(b) – Report on Form 8-K

- (i) On May 11, 2004, the Company filed a Current Report on Form 8-K, under Items 4 and 7.
- (ii) On May 14, 2004, the Company filed a Current Report on Form 8-K, under Item 12.
- (iii) On May 19, 2004, the Company filed a Current Report on Form 8-K, under Item 4.
- (iv) On May 25, 2004, the Company filed a Current Report on Form 8-K, under Item 5.
- (v) On July 19, 2004, the Company filed a Current Report on Form 8-K, under Item 5.
- (vi) On August 11, 2004, the Company filed a Current Report on Form 8-K, under Item 5.
- (vii) On September 29, 2004, the Company filed a Current Report on Form 8-K, under Item 404 and 901.

No financial statements were filed in connection with any of the foregoing Current Reports on Form 8-K.

SIGNATURES

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

Acceris Communications Inc.

(Registrant)

Date: September 30, 2004

By: /s/ Allan C. Silber

Allan C. Silber
Chairman of the Board of
Directors and
Chief Executive Officer

By: /s/ Gary M. Clifford

Gary M. Clifford
Chief Financial Officer and Vice
President of Finance

Province of Ontario)
State of California)
City of Toronto)
County of San Diego)

VERIFICATION

I, Kelly D. Murumets, being duly sworn, declare that I am the President of Acceris Communications Corp. , the Applicant. I verify that, based upon information and belief, I have knowledge of the statements in the foregoing Application, and I declare that they are true and correct.

Kelly D. Murumets
Kelly D. Murumets
President

Sworn to before me, the undersigned Notary Public on this
16th day of February, 2004.

Derek McBean
Notary Public

DEREK D. McBEAN
Print or Type Name

My commission expires:

Unlimited as to time.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing Application upon the following parties, listed below, in accordance with Commission rules.

Dated this 5 day of May, 2005.



Lance J.M. Steinhart
Georgia Bar No. 678222

Counsel for

ACCERIS COMMUNICATIONS CORP.

Office of the Public Counsel

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Jefferson City, MO 65102

General Counsel

Missouri Public Service Commission

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