KC/MT

TC04-102

DOCKET NO. TC04-102

In the Matter of IN THE MATTER OF THE APPLICATION OF ACCERIS COMMUNICATIONS CORP. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
6/11	04	Filed and Docketed;
6/17	04	Weekly Filing;
7/27	04	Order Granting COA;
7/27	04	Docket Closed

STATE PUBLISHING CO., PIERRE, SOUTH DAKOTA—SMEAD 62 SF14130

TC04-102

RECEIVED

JUN 11 2004

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

Lance J.M. Steinhart, P.C.
Attorney At Law
1720 Windward Concourse
Suite 250
Alpharetta, Georgia 30005

Also Admitted in New York
and Maryland

Telephone: (770) 232-9200
Facsimile: (770) 232-9208

June 10, 2004

VIA FEDERAL EXPRESS

Returned Check 6/11/04

Ms. Pamela Bonrud
Executive Director
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070
(605) 773-3201

Re: Acceris Communications Corp.

Dear Ms. Bonrud:

Enclosed please find one original and ten (10) copies of Acceris Communications Corp.'s Application for Registration of a Telecommunications Company to Provide Local Exchange Service.

The information which is the subject of this request is Acceris Communications, Inc.'s Form 10-K for the quarterly period ended December 31, 2003. As a privately-held corporation, the Applicant's financial statements are not made publicly available, and Applicant takes reasonable precautions to maintain and protect the confidentiality of such information. Public disclosure of Applicant's financial information for which this request is made could place Applicant at a competitive disadvantage. For these reasons, Acceris Communications Corp. hereby respectfully requests that its financial statements be treated as confidential information and not made a part of the public record in this Docket.

I have also enclosed a check in the amount of $250.00 payable to the "South Dakota Public Utilities Commission" for the filing fee and an extra copy of this cover letter to be date stamped and returned to me in the enclosed self-addressed prepaid envelope.

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

Respectfully submitted,

Lance J.M. Steinhart/ce

Lance J.M. Steinhart
Attorney for Acceris Communications Corp.

Enclosures
cc: Tom Jones (w/enc)

TC04-102

APPLICATION FOR REGISTRATION
OF ACCERIS COMMUNICATIONS CORP.
FILED WITH THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF ACCERIS COMMUNICATIONS CORP.	)	
FOR AN ORDER AUTHORIZING THE REGISTRATION OF APPLICANT AS A TELECOMMUNICATIONS COMPANY TO PROVIDE LOCAL EXCHANGE SERVICE	)	Docket No.

RECEIVED
JUN 11 2004
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

APPLICATION

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

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

Acceris Communications Corp.
9775 Businesspark Avenue
San Diego, California 92131
(800) 576-7775 (Phone)
(858) 566-6523 (Fax)
tom.jones@acceris.com(e-mail)

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

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

Walker Burl
9775 Businesspark Avenue
San Diego, California 92131
(800) 569-87005 (Phone)
(858) 547-5595 (Fax)
walker.burl@acceris.com(e-mail)

2. **Registered Agent**

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

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

3. **Description of the Applicant**

Applicant is incorporated in the State of Delaware and is in good standing under the laws of that state. The Company was incorporated on May 25, 2000. A copy of the Company's Certificate of Incorporation, as amended, is attached to this Application as Exhibit A. In addition, the Company is authorized to do business as a foreign corporation in the State of South Dakota. Attached as Exhibit B to this Application is a copy of the Company's certificate of qualification to transact business issued by the South Dakota Secretary of State.

Applicant is authorized to provide resold and facilities-based/UNE-P local exchange telecommunications services in Alabama, California, Delaware, Florida, Kentucky, Louisiana, Maryland, Massachusetts, Montana, New Jersey, New York, Pennsylvania, Rhode Island and South Carolina, and is in good standing with the appropriate regulatory agency in each such state. Applicant is in the process of applying for authorization to provide competitive local exchange services throughout the United States. Applicant has not been denied authority for any of the services for which it seeks authority in this Application. Applicant is currently providing local service in Massachusetts, New Jersey, New York and Pennsylvania. In addition, the company is authorized to, and is providing, long distance service throughout the United States. For South Dakota, see Docket No. TC00-104 (issued 10/17/00 to PT-1 Counsel, Inc., name changed to WorldxChange, and name subsequently changed to Acceris Communications Corp.

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

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

4. **Facilities**

Applicant will provide services through facilities of incumbent local exchange carriers ("LECs"), as well as unbundled network elements. The Applicant has no plans to install facilities in the State of South Dakota. If Applicant decides to install facilities, it will probably use the following or a similar configuration of equipment: Applicant will provide voice and high speed data services through a combination of the latest technology switching and transport media comprised of the Lucent Technology 5 ESS Generic 13 switch module, ADSL/SDSL transport and Internet service equipment and the latest Optical multiplexer

DAC's configurations. The switching system consists of a central processing and control complex capable of interconnection as a peer to the incumbent as well as competitive local exchange companies. The hub portion of the switch will interconnect with the public switched network on Signaling System 7 ("SS7") or Feature Group D ("FGD") facilities. The system's remote module capability will allow properties to be served in a manner that provides the exchange of appropriate signaling, control and calling/caller information to the network in accordance with network standards and specifications. Additionally, these services will be delivered over a combination of delivery mechanisms through incumbent local carriers' unbundled loop network, both copper and fiber and transport networks, as well as via constructed facilities. All of Applicant's equipment will be capable of providing local number portability, and will be compliant and compatible with existing 911 systems.

5. Stockholders

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

Name and Address	Shares Owned	Percentage of all Shares Issued and Outstanding and Voting Control
Acceris Communications, Inc. 9775 Businesspark Avenue San Diego, California 92131	1,000	100%

6. Officers and Directors

The names and addresses of the officers and directors of Acceris Communications Corp. are:

Officers:

Allan C. Silber	CEO
Kelly D. Murumets	President
Kenneth L. Hilton	Exec. VP, Sales & Marketing
James Ducay	Exec. VP/COO
Ralph Brandifino	Treasurer/CFO
Gary Clifford	VP/Asst. Treasurer
Stephen Weintraub	Secretary

Directors:

Allan C. Silber
Samuel Shimer

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

Acceris Communications Corp.
9775 Businesspark Avenue
San Diego, California 92131

7. Corporate Ownership

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

Acceris Communications, Inc.
9775 Businesspark Avenue
San Diego, California 92131

8. Subsidiaries owned or controlled by Applicant

None

9. Description of Services

Applicant will provide services through facilities of incumbent local exchange carriers ("LECs"), as well as unbundled network elements. Acceris will rely upon the incumbent local exchange companies (LEC) and other carriers for the provision and access to emergency services (911 or E911), operator services, directory assistance, and telecommunications relay services. Acceris seeks authority to resell and provide facilities-based/UNE-P local exchange services throughout the State of South Dakota in the areas served by any LECs in South Dakota that are not eligible for a small or rural carrier exemption pursuant to Section 251(f)(1) of the Federal Act. Acceris does not seek to provide services to customer in those small or rural territories at this time. Acceris intends to provide all forms of intrastate local exchange telecommunications services including:

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

10. Financial Qualifications

Applicant is financially qualified to provide intrastate local exchange telecommunications services within South Dakota. In particular, Applicant has adequate access to the capital necessary to fulfill any obligations it may undertake with respect to the provision of intrastate local exchange telecommunications services in the State of South Dakota. See Acceris Communications, Inc.'s Form 10-K for the year ended December 31, 2003, Exhibit D. The company will not require prepayments, advance payments or deposits.

11. Service Area Map

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

12. Tariff

Attached as Exhibit E is a copy of Acceris's local exchange tariff which is being filed for informational purposes only since Applicant intends to serve less than 50,000 local exchange subscribers in South Dakota. the company hereby requests a waiver of ARSD 20:10:32:03(13), which requires Applicant to provide a tariff or price list indicating the prices, terms and conditions of each contemplated local service offering. The company understands that prior to providing service in South Dakota, a final tariff with price information shall be filed as required by South Dakota law.

13. Billing

Applicant will direct bill local exchange customers utilizing completed call detail information

14. Solicitation of Customers

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

15. Description of Marketing

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

16. Cost Support:

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

17. **Federal Tax Identification Number:**

13-4119107

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

None

19. **Customer Service**

Applicant's customer service department may be contacted nationwide via a toll-free number, (800) 569-8700. The Company will maintain a Customer Service Department in California exclusively for Customers' questions, requests for service, complaints and trouble handling. The Company's Customer Service address and local or toll free number(s) will be printed on the Customer's bill. The Customer Service Department will be located at 9775 Businesspark Avenue, San Diego, California 92131. The Company also intends to have a locally staffed office at one or more hub site locations in each state and will provide its customers with a local Customer Service number that will be available 24 hours per day, 7 days per week.

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

Complaint Procedures- The Customer shall pose any inquiries or disputes directly to the Company for resolution. Written communications should be directed to the Company's Customer Service department. All undisputed portions of any outstanding balance due are to be paid while resolution of the inquiry or dispute is pending. The Company will investigate a Customer inquiry or dispute and report the findings to the Customer. If the Company finds its actions to be consistent with its Tariff, the Company will inform the Customer of its no fault finding and require full payment of any outstanding balance due. If the Customer is not satisfied with the Company's resolution of an inquiry or dispute, the Customer may refer the matter to the South Dakota Public Utilities Commission for final determination.

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

20. Interconnection

Applicant initially intends to interconnect with Qwest. Request for negotiations for interconnection has been initiated by Applicant. Interconnection service is likely to be initiated within 180 days of completion of interconnection negotiations.

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

DATED this 10th day of June, 2004.

Respectfully submitted,

Acceris Communications Corp.

By: Lance J. M. Steinhart

Lance J.M. Steinhart, Esq.
Lance J.M Steinhart, PC
1720 Windward Concourse
Suite 250
Alpharetta, Georgia 30005
(770) 232-9200/Phone
(770) 232-9208/Fax
lsteinhart@telecomcounsel.com/Email

Its Attorney

State of California
ss
County of San Diego

Kenneth L. Hilton, being first duly sworn, deposes and says that he/~~she~~ is the Exec. Vice-President of Acceris Communications Corp. , the Applicant in the proceeding entitled above, that he/~~she~~ has read the foregoing application and knows the contents thereof; that the same are true of his/~~her~~ knowledge, except as to matters which are therein stated on information or belief, and to those matters he/~~she~~ believes them to be true.

X Kenneth L. Hilton
Kenneth L. Hilton
Exec. Vice-President

Subscribed and sworn to before this 18th day of May, 2004.

X Anna-Marie Fedorko
Notary Public

My Commission expires: October 19, 2005.

ANNA-MARIE FEDORKO
Commission # 1325960
Notary Public - California
San Diego County
My Comm. Expires Oct 19, 2005

LIST OF EXHIBITS

EXHIBIT A - CERTIFICATE OF AUTHORITY

State of South Dakota

OFFICE OF THE SECRETARY OF STATE

Amended Certificate of Authority

ORGANIZATIONAL ID #: FB024022

I, Chris Nelson Secretary of State of the State of South Dakota, hereby certify that duplicate of the Application for an Amended Certificate of Authority of **WORLDXCHANGE CORP. changing its name to ACCERIS COMMUNICATIONS CORP. (DE)** to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

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

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this April 8, 2004.

Chris Nelson

Chris Nelson
Secretary of State

EXHIBIT B - CERTIFICATE OF INCORPORATION

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

040040833

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

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

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

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

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 11:00 AM 10/31/2000
001547051 – 3234808

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

UNDER SECTION 242 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 20th 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 $.001 per share.

5) The name and mailing of the incorporator is as follows:

Name	Address
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.

STATE OF DELAWARE

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. Gielchinsky
Sole Incorporator

EXHIBIT C - BIOGRAPHIES OF THE MANAGEMENT TEAM

AllanC. 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.

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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.

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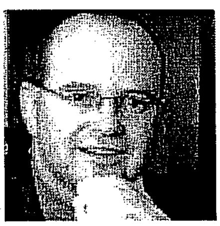

Gary M. Clifford, CFO
Gary Clifford joined Counsel Corporation as Chief Financial Officer in November 2002 and was appointed Vice President of Finance of Acceris Communications in December 2002 and Chief Financial Officer in February 2003. Prior to joining Counsel and Acceris, Mr. Clifford held various 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 articled with Coopers & Lybrand. He is a graduate of the University of Toronto, with a Bachelor degree in Management.

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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.

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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.

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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.

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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 D - FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT UNDER SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE YEAR ENDED DECEMBER 31, 2003

Commission File No. 0-17973

ACCERIS COMMUNICATIONS INC.

(Name of Registrant as Specified in Its Charter)

Florida (State or Other Jurisdiction of Incorporation or Organization)	**52-2291344** (I.R.S. Employer Identification No.)
9775 Businesspark Avenue, San Diego, California (Address of Principal Executive Offices)	**92131** (Zip Code)

(858) 547-5700
(Registrant's Telephone Number, Including Area Code)

Securities to be registered pursuant to Section 12(b) of the Exchange Act: **None.**

Securities to be registered pursuant to Section 12(g) of the Exchange Act: **Common Stock, $0.01 par value.**

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 Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filed (as defined in Exchange Act Rule 12b-2).
Yes ☐ No ✓

The aggregate market value of Common Stock held by non-affiliates based upon the closing price of $5.70 per share on June 30, 2003, as reported by the OTC - Bulletin Board, was approximately $10,621,665.

As of April 9, 2004, there were 19,262,095 shares of Common Stock, $0.01 par value, outstanding.

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PART I

(All dollar amounts are presented in thousands USD, except per share amounts)

Item 1. Business.

Overview

The vision for Acceris Communications Inc. ("Acceris" or the "Company"), formerly I-Link Incorporated, is to be the preferred supplier of high-quality communications products and services to targeted markets that will deliver profitable growth while creating value for all its stockholders. The mission of Acceris is to provide businesses and consumers with competitively priced voice, data and enhanced communications services via direct and indirect channels. Through the dedication of its employees, the Company delivers industry-leading customer care, customized product solutions and full back office support, building long-term loyalty and trust with its customers. Acceris' telecommunications division (**"Telecommunications"**) operates through two specific marketing channels: **Retail**, which 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 multi-level marketing ("MLM") and commercial agent programs (this segment has been referred to in previous reports as Acceris Communications Partners) and **Enterprise**, which offers voice services and fully integrated, fully managed data services (this segment has been referred to in previous reports as Acceris Communications Solutions). Acceris' other division, referred to as **"Technologies"**, 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 (US Patent Nos. 6,243,373 and 6,438,124, the "VoIP Patents"). In 2004, Technologies intends to pursue efforts to license the technology supported by its patents to carriers and equipment manufacturers and suppliers in the IP telephony market.

History and Development of the Business

Acceris was incorporated in Florida in 1983 under the name MedCross, Inc., which was changed to I-Link Incorporated in 1997, and to Acceris Communications Inc. in 2003.

Acceris has been growing 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 categories: Telecommunications and Technologies. Telecommunications has been assembled through the acquisition from bankruptcy of certain assets of WorldxChange Communications, Inc. in June 2001 (this business is referred to as "WorldxChange") and certain assets of RSL COM U.S.A. Inc., ("RSL") in December 2002. Added to these was the acquisition of all of the outstanding shares of Transpoint Communications, LLC ("Transpoint") in July 2003.

On March 1, 2001, Acceris became a majority-owned subsidiary of Counsel Communications, LLC, an indirect wholly owned subsidiary of Counsel Corporation, (collectively, "Counsel"). Since taking a controlling position in Acceris, Counsel has advanced approximately $75,900 to Acceris, consisting of notes, equity, accrued interest and other advances, (net of approximately $8,200 in repayments to Counsel.) Of this amount, approximately $22,500 was utilized to complete the WorldxChange and RSL acquisitions, while the remaining approximately $53,400 has been used directly in operations, principally to fund the building of its Telecommunications and Technologies divisions.

The development and transition of the Company has been as follows:

Telecommunications:

Telecommunications, comprised of WorldxChange, certain assets of RSL and Transpoint, has been built primarily through three transactions, described more fully below.

In June 2001, Acceris acquired WorldxChange from a debtor in a bankruptcy proceeding. WorldxChange is a facilities-based telecommunications carrier that provides international and domestic long-distance service to retail customers. WorldxChange initially 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. Historically, WorldxChange marketed its services through consumer mass marketing techniques, including direct mail and direct response television and radio. In 2002, WorldxChange revamped its channel strategy by de-emphasizing the direct mail channel and devoting its efforts to pursuing more profitable methods of attracting and retaining customers. Today, it uses commercial agents as well as a network of independent commission agents recruited through its MLM programs to attract and retain new customers. Independent agents are non-employee sales people who market and sell Acceris products and services and are compensated through commissions and other incentives. MLM programs provide incentives to current customers who sign up new subscribers.

In December 2002, Acceris completed the purchase of the assets used in the Enterprise and Agent business of RSL from a debtor in a bankruptcy proceeding. The purchase included the assets used by RSL to provide long-distance voice and data services, including frame relay, to small and medium size businesses ("Enterprise" business), and the assets used to provide long-distance and other voice services to small businesses and consumers in the residential market ("Agent" business), together with the existing customer base of the Enterprise and Agent business.

In July 2003, Acceris acquired all of the outstanding shares of Transpoint. The acquisition of Transpoint provided Acceris with further penetration into the commercial agent channel and a larger commercial customer base.

Starting in the fourth quarter of 2003, Telecommunications has also begun to offer local communications products to its residential and small business customers. The service will be provided under the terms of the Unbundled Network Element Platform ("UNE-P") authorized by the Telecommunications Act of 1996 and will be available in New York and New Jersey initially, expanding to other markets throughout the United States.

Technologies:

In 1994, Technologies began operating as an Internet service provider and quickly identified that the emerging IP environment was a promising basis for enhanced service delivery. The Company soon turned to designing and building an IP telecommunications platform consisting of Acceris' proprietary software, hardware and leased telecommunications lines. The goal was to create a platform with the quality and reliability necessary for voice transmission. By 1996, Acceris released its first IP-based service called "Fax-4-Less," which provided users an efficient and cost-effective way to distribute facsimile information.

In 1997, Technologies 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 an IP-based network with the reliability of the existing Public Switched Telephone Network ("PSTN"). The suite of services included a one number "follow me" service, long-distance calling, unified messaging, conference calling, message broadcasting and web-based interface to manage messages and maintain personal account settings.

In August 1997, Technologies acquired MiBridge, Inc. ("MiBridge"), a New Jersey-based communications technology company engaged in the design, development, integration and marketing of a range of software telecommunications products that supported multimedia communications over the PSTN, local area networks ("LAN") and IP networks. Historically, MiBridge concentrated its development efforts on compression systems such as VoIP. As part of Acceris, MiBridge continued to develop patent-pending technologies which combined sophisticated compression capabilities with IP telephony technology. The acquisition of MiBridge permitted the Company to accelerate the development and deployment of IP technology across its network platform.

In 1998, Technologies deployed its 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 its software-defined VoIP platform in 1998, Technologies continued to refine and enhance the platform to make it even more efficient and capable for its partners and customers.

In February 2000, Technologies transitioned its direct-sales marketing program to Big Planet, Inc. ("Big Planet"), a subsidiary of Nu Skin Enterprises, Inc., whereupon Big Planet became one of the Company's wholesale customers. The transition of the network marketing sales channel to Big Planet allowed Acceris to focus on the expansion of the VoIP platform and the development and deployment of new enhanced services and products, while at the same time maintaining existing channels for retail sales.

In April 2001, Acceris acquired WebToTel, Inc. ("WebToTel") and Nexbell Communications, Inc. ("Nexbell"), both previously subsidiaries of Counsel, in a stock-for-stock transaction. Nexbell was sold to a third party in December 2001 (see Notes 9 and 13 to the Consolidated Financial Statements included in Item 15 hereof).

On December 6, 2002, Technologies entered into a definitive purchase and sale agreement to sell substantially all of the assets and customer base of I-Link Communications, Inc. ("ILC"), a wholly owned subsidiary of Acceris, to Buyers United, Inc. ("BUI"). The sale closed on May 1, 2003. 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 fully paid perpetual license to its proprietary software-based network convergence solution for voice and data. The sale of the ILC business removed essentially all of Technologies' operations that did not pertain to the Company's proprietary software-based convergence solution for voice and data. This sale marked the final stage of the transformation of Technologies' operations into a business based principally on the licensing of its proprietary software.

Technologies owns four patents and utilizes the technology supported by those patents in providing its proprietary software solutions. The Company believes that it holds the foundational patents for VoIP in its VoIP Patents. To date, the Company has licensed portions of that technology to third parties on a non-exclusive basis. In addition, Acceris also has several patent applications pending before the United States Patent and Trademark Office ("USPTO") and other such authorities internationally.

Today, Technologies remains focused on delivering solutions for voice and data services to its partners and customers, while launching a strategy to realize value from its patents through licensing. With over nine years experience developing VoIP technologies, Acceris continues to offer a solution for companies to reduce telecommunications costs and/or to enter the enhanced communications market. Acceris continues to market its voice and data services and solutions and to license its enhanced services platform domestically and internationally to organizations who wish to offer voice services without incurring high development costs. The Company is pursuing opportunities to leverage its patents through a strategy to license the technology to carriers, equipment/softswitch manufacturers and customers who are deploying IP for phone-to-phone communication. Technology licensing revenues are project-based and, as such, these revenues vary from period to period based on timing and size of technology licensing projects and payments.

Employees

As of December 31, 2003, Acceris had approximately 340 employees with whom the Company feels it has a good relationship. The Company is not subject to any collective bargaining agreements.

Business Reorganization

During 2003, Acceris continued to consolidate functions across the Company. The Company is focused on streamlining its internal processes, eliminating duplicate efforts of staff serving similar roles in multiple locations and making the integration of additional companies into its operations more cost effective and less risky. Upon the acquisition of RSL and disposition of the ILC business in December 2002, the Company was organized into three operating segments, Retail, Enterprise and Technologies. These segments have been described in previous filings as Acceris Communications Partners, Acceris Communications Solutions and Acceris Communications Technologies, respectively.

Competition

Acceris' long-term success will be founded in its ability to provide quality service, enhanced features and new product offerings, which offer greater convenience to the Retail and Enterprise markets. These products must be offered at value pricing, through its selected distribution channels.

The Retail and Enterprise businesses face competition from numerous telecommunications organizations offering services in the United States. Providers include large organizations such as AT&T, Sprint, Primus, MCI WorldCom and Verizon, as well as numerous small, lesser known, service providers.

The Retail business, consistent with its competitors, sees significant attrition in its customer base over short periods of time, particularly with dial-around products. In order to compete with other providers such as Talk America and Ztel, Acceris has focused on developing and delivering a bundled product including local (which began in 2003), long-distance and enhanced services to targeted niche markets in the residential and small business marketplace. Recognizing that customers are highly mobile, Acceris is migrating away from dial-around products and instead is focusing its efforts on developing and marketing product offerings that appeal to higher quality, longer term customers. Factors that influence the highly mobile customer base include, among other things, quality of service, enhanced feature offerings and value pricing. Long-term success in this market is sustained by attracting new customers and developing customer loyalty.

The Enterprise business differs significantly from the Retail business. In this business, Enterprise customers generally enter into agreements that extend from 1 to 3 years, which results in a recurring and more predictable revenue stream. The Enterprise business experiences longer term customer relationships as a result of the Company's ability to offer specific solutions to each individual customer. The Enterprise channel differentiates itself from its competitors by offering engineered solutions that are customized and fully managed and by providing high quality, personalized customer care. A key challenge in this business is to improve cross-sell with new or enhanced product offerings.

Technologies offers an internally developed patent-based technology solution that operates in both a convergence and IP world. Technologies provides a 100% software solution for VoIP deployment. The solution, unlike that of some of its competitors, does not rely on hardware to provide switching, conference or enhanced services. Additionally, the solution provides an open Application Programming Interface ("API"), to enable development of a wide variety of voice applications and services. Commencing in late 2002, Acceris made the decision to pursue the development of the domestic market providing software-based IP solutions to domestic carriers which assist those companies by reducing their internal costs and/or allowing them to offer enhanced service products to their own retail customers. Prior to the sale of its IP network operations based in Draper, Utah (ILC) to BUI, Acceris had offered these products internationally and marketed its enhanced service products to customers on a retail basis. Acceris does not currently experience any direct competition to its current technology although there are many competitors with certain portions of its technology, but not as an entire package. Its competition would include the traditional switched telephony infrastructure providers, such as Nortel and Lucent, which this technology displaces. While its competition offers products with similar features, its competitive product is software versus hardware-based and as such can be deployed at a significantly lower cost. Also, the software nature of its product makes it easier and more economically feasible to develop additional features and services to meet ever changing customer needs.

Government Regulation

Overview of Products

We offer business and residential consumers a broad suite of voice and data telecommunications products and services, including local exchange, long-distance (1+ or 10-10-XXX dial-around) and international calling services. Our various business segments operate in both regulated and non-regulated environments.

Federal and state governing authorities regulate our local and long-distance services. For our long-distance business, we are regulated as a non-dominant interexchange carrier ("IXC"). Federal and state authorities have been reducing their regulatory requirements as the industry faces robust competition. For our local exchange services, we are regulated as a competitive local exchange carrier ("CLEC").

Additionally, we offer a variety of enhanced services, including an open API that enables development of a variety of voice applications using its patented VoIP software as well as data services.

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 Federal Communications Commission ("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 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 Telecommunications Act of 1996 (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 "Unbundled Network Elements" ("UNEs") which are portions of the incumbent local exchange carrier ("ILECs") 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 is scheduled to go into effect 60 days after decision but will likely be appealed to the U.S. Supreme Court. If the U.S. Supreme Court agrees to review the decision, the effective date of this ruling could be delayed. We are unable to determine the outcome of these proceedings; however, the inability to purchase UNEs 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 Universal Service Fund ("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.

Available Information

Acceris is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which requires that Acceris file reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). The SEC maintains a website on the Internet at *http://www.sec.gov* that contains reports, proxy and information statements and other information regarding issuers, including Acceris, that file electronically with the SEC. In addition, Acceris' Exchange Act filings may be inspected and copied at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. The Company has made available free of charge through its Internet web site, *http://www.acceris.com* (follow Investor Relations tab to link to "SEC Filings") its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material was electronically filed with, or furnished to, the SEC.

Item 2. Properties.

The Company rents approximately 31,000 square feet of office space in San Diego, California under 2 commercial leases which terminate in May 31, 2004 and April 30, 2006. The combined rental fee is approximately $45 per month. The Company uses this space primarily for its sales and marketing team, certain network resources and certain administrative staff.

The Company rents approximately 46,000 square feet of office space in Pittsburgh, Pennsylvania under a lease expiring on June 30, 2005, at a cost of approximately $54 per month. The Company uses this space primarily for its network operations center, administrative staff and other employees.

The Company rents approximately 12,000 square feet of office space in Somerset, New Jersey under a lease expiring September 30, 2008, at a cost of approximately $11 per month. The Company uses this space to operate its local service offering as well as for certain of its information technology and other employees.

The Company also leases several other co-location facilities throughout the United States to house its network equipment, as well some additional office space. Such spaces vary in size and length of term. The total combined square footage of the spaces under these agreements is no greater than 29,000 square feet at a cost of approximately $95 per month.

The Company owns four issued patents and utilizes the technology supported by those patents in providing its products and services. It has also licensed certain portions of that technology to third parties on a non-exclusive basis. In December 2003, Acceris purchased US Patent No. 6,243,373, including a corresponding foreign patent and related international patent applications. In August 2002, Acceris' voice Internet transmission system patent was issued (US Patent No. 6,438,124). This patent, together with US Patent No. 6,243,373 and its related patent applications comprise our VoIP Patents and form an international patent portfolio that covers the basic process and technology that enables VoIP communications as it is used in the market today. Acceris also has two other IP patents, US Patent Nos. 5,898,675 and 5,754,534 issued in 1999 and 1998, respectively, which are related to the delivery of high quality conference calls with compressed signals. Together, these patented technologies have been successfully deployed and commercially proven in a nationwide IP network and in Acceris' unified messaging service, API and software licensing businesses. Acceris plans to further leverage these patents as it packages an IP solution for the growing Enterprise segment. While the Company is using the technology supported by the VoIP Patents in its business, it is also investigating whether and to what extent the VoIP Patents may be able to be licensed to third parties. The Company also has several patent applications that are currently pending before USPTO.

Item 3. Legal Proceedings.

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

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

On November 26, 2003, the Company held its Annual Meeting of Stockholders (the "Annual Meeting"). The following is a tabulation of the voting on the proposals presented at the Annual Meeting. The voting on Proposal 3 was adjourned until December 30, 2003 in order to allow the Company to distribute to its stockholders amended statutory sections of the state of Florida's corporate statutes. Proposal 3 was voted on at an Adjourned Meeting of Stockholders on December 30, 2003.

PROPOSAL 1. The following two nominees were elected as Class I directors, each to serve for three years and until his successor has been duly elected and qualified.

	Shares Voted For	Shares Withheld	Broker Non-Votes
Samuel L. Shimer	107,079,096	zero	20,861,603
Stephen A. Weintraub	107,078,796	zero	20,861,603

Terms of office for Allan C. Silber, Kelly D. Murumets, Hal B. Heaton, Albert Reichmann, Henry Y.L. Toh and John R. Walter continued after the meeting. Mr. Reichmann resigned his position on March 23, 2004, and the Board appointed Mr. William H. Lomicka to fill the vacancy left by Mr. Reichmann. Mr. Walter resigned his position on April 5, 2004 and as of the date of this filing, the vacancy left by Mr. Walter has not been filled. See Item 10 for further discussion.

PROPOSAL 2. The name of the Company was changed to "Acceris Communications Inc."

Shares Voted For	Shares Voted Against	Shares Abstaining	Broker Non-Votes
107,635,391	1,044,170	139,324	20,861,603

PROPOSAL 3. An amendment to the Company's Articles of Incorporation deleting Article VI thereto was approved.

Shares Voted For	Shares Voted Against	Shares Abstaining	Broker Non-Votes
84,298,855	2,498,343	277,934	N/A

PROPOSAL 4. A 1-for-20 reverse stock split of the Company's common stock was approved.

Shares Voted For	Shares Voted Against	Shares Abstaining	Broker Non-Votes
26,026,024	3,264,320	127,995	20,861,603

PROPOSAL 5. The 2003 Stock Option and Appreciation Rights Plan was approved and adopted.

Shares Voted For	Shares Voted Against	Shares Abstaining	Broker Non-Votes
82,065,674	2,965,167	593,838	N/A

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Price Range of Common Stock

Shares of Acceris' common stock, $0.01 par value per share, are traded on the OTC Bulletin Board ("OTC-BB") under the symbol ACRS.OB.

The following table sets forth the high and low prices for the Company's common stock for the period as quoted on the OTC-BB from January 1, 2002 to December 31, 2003 (adjusted for a 1-for-20 reverse stock split that was approved on November 26, 2003) based on interdealer quotations, without retail markup, markdown, commissions or adjustments and may not represent actual transactions:

Quarter Ended	High	Low
March 31, 2002	$10.00	$1.40
June 30, 2002	5.80	2.60
September 30, 2002	4.80	1.80
December 31, 2002	3.40	1.40
March 31, 2003	$ 3.40	$2.00
June 30, 2003	5.60	2.00
September 30, 2003	6.00	3.00
December 31, 2003	4.80	1.20

On April 8, 2004, the closing price for a share of the Company's common stock was $3.45.

Holders

As of March 15, 2004, the Company had approximately 898 stockholders of common stock of record and there were approximately 9,783 beneficial owners of the Company's common stock.

Dividends

To date, the Company has not paid dividends on its common stock nor does it anticipate that it will pay dividends in the foreseeable future. As of December 31, 2003, the Company does not have any preferred stock outstanding which has any preferential dividends. The Loan and Security Agreement with Foothill Capital Corporation restricts the ability of one of the Company's subsidiaries from making distributions or declaring or paying any dividends to the Company.

Dissenters' Appraisal Rights

At the Company's Adjourned Meeting of Stockholders held on December 30, 2003, stockholders of the Company approved an amendment to the Company's 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 the Company 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 the Company of their intention to exercise their appraisal rights. The appraisal notices included the Company's estimate of fair value of the Company's shares, at $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 the Company's stock have returned completed appraisal notices by February 29, 2004. A stockholder of 20 shares notified the Company of his acceptance of the Company's offer of $4.00 per share, while the stockholders of the remaining shares did not accept the Company's offer. Subject to the qualification that the Company may not make any payment to a stockholder seeking appraisal rights if, at the time of payment, the Company's total assets are less than its total liabilities, stockholders who accepted the Company's offer to purchase their shares at the estimated fair value will be paid for their shares within 90 days of the Company's receipt of a duly executed appraisal notice. If the Company should be required to make any payments to dissenting stockholders, Counsel will fund any such amounts through the purchase of shares of the Company's common stock. Stockholders who did not accept the Company's offer were required to indicate their own estimate of fair value, and if the Company does not agree with such estimates, the parties are required to go to court for an appraisal proceeding on an individual basis, establishing a fair market value for the shares in question. To date, no payments have been made and no appraisal proceeding has commenced.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.

On November 30, 2003, the Company entered into an Amended Debt Restructuring Agreement with Counsel whereby approximately $32,721 of notes payable was converted into 8,681,096 shares of the Company's common stock at a conversion rate of approximately $3.77 per share. On that same date, Counsel also exercised its voluntary conversion right on an additional $7,952 of debt owed to Counsel into 4,747,396 at a conversion rate of $1.68 per share. No cash consideration was received in the transactions. The Company relied on an exemption from registration under Section 4(2) of the Securities Exchange Act of 1933.

Item 6. Selected Financial Data.

The following selected consolidated financial information was derived from the audited consolidated financial statements and notes thereto. The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 7, entitled Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K. All amounts below are in thousands, except share and per share amounts.

	1999	2000	2001	2002	2003
				(1)	
Statement of Operations Data :					
Revenues:					
Telecommunications services	$ —	$ —	$ 50,289	$ 85,252	$133,765
Marketing services	3,673	464	—	—	—
Technology licensing and development	2,507	8,972	5,697	2,837	2,164
Other	—	400	—	—	—
Net sales	6,180	9,836	55,986	88,089	135,929
Operating costs and expenses:					
Telecommunications network expense (exclusive of depreciation below)	—	—	35,546	50,936	86,006
Marketing services costs	5,400	456	—	—	—
Selling, general, administrative and other	10,148	14,683	30,790	33,015	57,264
Provision for doubtful accounts	—	—	2,861	5,999	5,438
Research and development	2,636	4,220	2,332	1,399	—
Depreciation and amortization	5,482	3,991	6,409	4,270	7,125
Total operating expenses	23,666	23,350	77,938	95,619	155,833
Operating loss	(17,486)	(13,514)	(21,952)	(7,530)	(19,904)
Other expense, net	(4,856)	(1,639)	(4,023)	(7,499)	(6,946)
Loss from continuing operations	(22,342)	(15,153)	(25,975)	(15,029)	(26,850)
Income (loss) from discontinued operations	(2,317)	(10,599)	(18,522)	(12,508)	529
Net loss	$(24,659)	$(25,752)	$(44,497)	$(27,537)	$ (26,321)
Loss from continuing operations applicable to common stockholders	$(31,269)	$(16,800)	$(10,759)	$(15,029)	$ (26,850)
Net income (loss) per common share - basic and diluted:					
Loss from continuing operations	$ (29.21)	$ (12.60)	$ (2.17)	$ (2.58)	$ (3.83)
Income (loss) from discontinued operations	(2.16)	(7.95)	(3.73)	(2.15)	0.08
Net loss per common share	$ (31.37)	$ (20.55)	$ (5.90)	$ (4.73)	$ (3.75)
Balance Sheet Data:					
Working capital deficit	$ (1,319)	$(30,061)	$(40,812)	$(17,244)	$ (26,576)
Furniture, fixtures, equipment and software, net	7,019	10,983	21,024	11,479	8,483
Intangible assets, net	6,551	3,939	1,331	2,747	4,417
Total assets	21,658	21,657	46,780	41,446	39,054
Total current liabilities	8,976	35,960	64,117	40,852	50,887
Total long-term obligations:	9,659	2,802	19,661	64,519	37,476
Related party	—	—	8,133	59,340	35,073
Other	9,659	2,802	11,528	5,179	2,403
Stockholders' deficit	(11,050)	(28,839)	(36,998)	(63,925)	(49,309)

(1) The selected financial data above as of December 31, 2002 and for the year then ended were restated on the Company's Annual Report on Form 10-K/A #2, filed with the SEC on October 15, 2003 from those previously issued to account for revenues from the Company's network service offering when the actual cash collections to be retained by the Company are finalized. The restatement had no effect on loss from discontinued operations or net loss per share from discontinued operations. The restatement increased the net loss for the year ended December 31, 2002 by $3,505 or $0.60 per share.

Significant Acquisitions and Dispositions:

On April 17, 2001, the Company acquired WebToTel and its subsidiaries (including Nexbell) in a stock for stock transaction. However, as WebToTel (which was a subsidiary of Counsel) and Acceris were under common control as of March 1, 2001 (the date Counsel obtained its ownership in Acceris), the Company has accounted for the acquisition using the pooling-of-interests method of accounting as of March 1, 2001. Accordingly, the financial results of WebToTel and its subsidiaries (including Nexbell which was sold in December 2001) are included herein subsequent to March 1, 2001.

On June 4, 2001, Acceris purchased WorldxChange from a debtor in a bankruptcy proceeding. WorldxChange is a facilities-based telecommunications carrier that provides international and domestic long-distance service to residential and commercial customers. WorldxChange's operations are part of the Retail segment.

On December 6, 2002, Acceris entered into an agreement, which closed on May 1, 2003, to sell substantially all of the assets of ILC. 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 license in perpetuity to use Acceris' proprietary software platform. Additionally, Acceris sold its customer base that was serviced by ILC. Pursuant to Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, operating results of ILC have been reclassified in the years from 1998 to 2002 to discontinued operations.

On December 10, 2002, Acceris completed the purchase of the Enterprise and Agent business of RSL. The acquisition included the Enterprise business assets used by RSL to provide long-distance voice and data services, including frame relay, to small and medium size businesses and the Agent business assets used to provide long-distance and other voice services to small businesses and the consumer/residential market, together with the existing customer base of the Enterprise and Agent business. The Agent business is included in the Retail segment while the Enterprise business is included in the Enterprise segment.

On July 28, 2003, the Company completed the purchase of all of the outstanding stock of Transpoint. The acquisition provided the Company with further penetration into the commercial agent channel, as well as a larger residential customer base.

Debt Restructuring

In order to reduce the cash requirements to pay the related party debt, the Company entered into an Amended Debt Restructuring Agreement with Counsel whereby approximately $32,721 was converted into common stock on November 30, 2003, reducing Acceris' debt obligation and related interest charges without expending cash. On that same date, Counsel also exercised its voluntary conversion right on an additional $7,952 of debt owed by Counsel (see Item 13 for further discussion). Additionally, during 2003, Counsel extended the due date on the remaining related party debt to June 30, 2005. The balance due to Counsel for the related party debt was approximately $35,073 at December 31, 2003.

Reverse Stock Split

On November 26, 2003, Acceris stockholders approved a 1-for-20 reverse stock split. Accordingly, the earnings per share for years prior to 2003 have been restated to reflect the reverse split. All references to share numbers reflect the reverse stock split unless otherwise noted. In connection with the reverse stock split, the par value of the Company's common stock changed from $0.007 to $0.01.

Adoption of Significant Accounting Pronouncements

In 2003, Acceris adopted Statement of Financial Accounting Standards No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002* ("SFAS 145"). SFAS 145 requires the modification of the Company's 2001 financial statement to reclassify the previously reported gain on debt extinguishment from extraordinary item to discontinued operations.

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS 150"). SFAS 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires the classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS 150 on July 1, 2003 and the adoption did not have any effect on the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging* Activities ("SFAS 149"). This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003 and did not have any effect on the Company's financial position or results of operations.

In December 2003, the Securities and Exchange Commissions (the "SEC") issued Staff Accounting Bulletin ("SAB") No. 104, *Revenue Recognition* ("SAB 104"), which supersedes portions of SAB 101. The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superseded as a result of the issuance of the FASB's Emerging Issues Task Force Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* ("EITF 00-21") While the wording of SAB 104 changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The adoption of SAB 104 did not have a material impact on the Company's financial position or results of operations.

Significant Risks and Material Uncertainties

There are significant risks and material uncertainties that exist in Acceris' business model and environment that may cause the data reflected herein to not be indicative of the Company's future financial condition. These risks and uncertainties include, but are not limited to those presented below in Item 7, entitled Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Forward-Looking Information

This report contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Exchange Act, as amended, and information relating to Acceris 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 under "Risk Factors." 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.

Overview and Recent Developments

Our vision is to be the preferred supplier of high-quality communications products and services to targeted markets that will deliver profitable growth while creating value for all stockholders. Our mission is to provide businesses and consumers with competitively priced voice, data and enhanced communications services via direct and indirect channels. Through the dedication of our employees, we deliver industry-leading customer care, customized product solutions and full back office support, building long-term loyalty and trust with our customers. Our **Telecommunications** division operates primarily through two specific marketing channels: **(1) Retail**, which 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; and **(2) Enterprise**, which offers voice services and fully integrated, fully managed data services . Our **Technologies** division offers a proven network convergence solution for voice and data in VoIP communications technology and holds two foundational patents in the VoIP space (US Patent Nos. 6,243,373 and 6,438,124). In 2004, we intend to pursue efforts to license the technology supported by our patents to carriers and equipment manufacturers and suppliers in the IP telephony market.

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 categories: Telecommunications and Technologies. Telecommunications has been assembled through the acquisition of WorldxChange in 2001 and certain assets of RSL in 2002. Added to this was the acquisition of all the outstanding stock of Transpoint, which closed in 2003.

Our development and transition is articulated below:

Telecommunications:

WorldxChange is a facilities-based telecommunications carrier which provides 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. 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 the WorldxChange MLM program to attract and retain new customers. In 2004 we launched the Agent Warrant Program which awards warrants to certain of our agents based on performance criteria as a means to attract and incentivize 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 Enterprise 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 all the outstanding stock of Transpoint. The acquisition of Transpoint provided us with further penetration into the commercial agent channel and a larger commercial customer base.

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 PSTN. Our suite of services included a one number "follow me" service, long-distance calling, unified messaging, conference calling, message broadcasting and web-based interface to manage messages and maintain personal account settings.

In August 1997, we acquired 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. Historically, MiBridge concentrated its development efforts on compression systems such as VoIP. As part of Acceris, MiBridge continued to develop patent-pending technologies combining sophisticated compression capabilities with IP telephony technology. 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.

In February 2000, we transitioned our direct-sales marketing program to Big Planet, whereupon they became one of our wholesale customers. The transition of the network marketing sales channel to Big Planet allowed us to focus on the expansion of our VoIP platform and the development and deployment of new enhanced services and products, while at the same time maintaining existing channels for retail sales.

In April 2001, we acquired WebToTel and Nexbell, both previously subsidiaries of Counsel, in a stock-for-stock transaction. We sold Nexbell to a third party in December 2001 (see Notes 9 and 13 to the Consolidated Financial Statements included in Item 15 hereof).

On December 6, 2002, we entered into a definitive purchase and sale agreement to sell substantially all of the assets and customer base of ILC to 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 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.

We own four patents and utilize the technology supported by those patents in providing our proprietary software solutions. We believe that we hold the 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 USPTO and other such authorities internationally.

Today, our Technologies segment remains focused on delivering solutions for voice and data services to our partners and customers, while launching a strategy to realize value from our patents through licensing. With over nine years experience developing VoIP technologies, we continue to offer a proven and time-tested solution for companies to reduce telecommunications costs and/or to enter the enhanced communications market. We continue to market our voice and data services and solutions and to license our enhanced services platform domestically and internationally to organizations who wish to offer voice services without incurring high development costs. We are evaluating opportunities to leverage our patents through a strategy to license our technology to carriers, equipment/softswitch manufacturers and customers who are deploying IP for phone-to-phone communication. Technology licensing revenues are project-based and, as such, these revenues vary from period to period based on timing and size of technology licensing projects and payments.

Liquidity and Capital Resources

We have incurred substantial operating losses and negative cash flows from operations since inception and had a stockholders' deficit of $49,309 and negative working capital of $26,576 at December 31, 2003. We had a stockholders' deficit of $63,925 and negative working capital of $17,244 at December 31, 2002. We continued to finance our operations during 2003 through related party debt with an outstanding balance of $35,073 and a revolving credit facility with an unrelated third party with an outstanding balance of $12,127 as of December 31, 2003. At December 31, 2002, the balance of our related party debt and a third party revolving credit facility was $59,340 and $9,086, respectively.

While there can be no assurance, we expect that once the streamlining of our operations is complete and the strategy changes we have implemented over the last two years have matured, the acquired businesses comprising our Telecommunications division will begin deriving positive cash flows during 2004. Our Technologies business achieved positive earnings and cash flows during 2003.

At December 31, 2003, we have debt of $35,073 owed to Counsel, which matures on June 30, 2005 (subject to certain contingent acceleration clauses). This debt is supplemented by an agreement 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"). The Keep Well obligates Counsel to continue its financial support of Acceris at least until June 30, 2005. In 2003, Counsel advanced us approximately $7,896 under the Keep Well and converted approximately $5,667 of accrued interest into principal. See Item 13 for further discussion of the Keep Well.

During 2003, Counsel acquired a debt we owed to Winter Harbor LLC of $2,557 and converted $40,673 of its convertible debt into Acceris common stock. This combination of events significantly reduced our liabilities, particularly to Counsel.

During 2004, our intention is to approach the capital markets to raise funds, however there can be no assurance that such fund raising will be successful. Since December 31, 2003, Counsel has advanced us approximately $4,050 in additional funding for general operating needs. Subsequent to December 31, 2003, we have sold approximately 50% of the shares we hold of BUI for approximately $1,600, which proceeds will be used to fund operations, capital expenditures and to improve working capital. We intend to sell the remainder of these shares during 2004. These shares are shown in current assets as investments in preferred stock at December 31, 2003.

We expect that if we improve our operational results throughout 2004 and complete additional third party financing, our dependence on Counsel to support our ongoing operational, capital and debt needs will be reduced.

The majority of the Company's debt matures on June 30, 2005. This includes amounts due on our three-year asset-based credit facility, under which we owed $12,127 at December 31, 2003 and amounts owed to Counsel of $35,073 (plus additional interest accrued prior to June 2005). While there is no assurance, we expect that we will be able to refinance or replace these debt facilities on acceptable terms.

While management's plans and expectations are clear, there is no assurance that we will be able to improve our cash flow from operations, obtain additional third party financing, extend, repay or refinance our debt with Counsel or our asset-based lender on acceptable terms, or obtain an extension of the existing funding commitment from Counsel beyond June 30, 2005, should it be required. If we are unable to accomplish the above, we may have to evaluate opportunities to sell assets or obtain alternative financing with terms that are not favorable to us.

Cash Position

Cash and cash equivalents as of December 31, 2003 were $2,033 compared to $3,620 in 2002 and $4,663 in 2001.

Cash flow from operating activities

Our working capital deficit increased to $26,576 as of December 31, 2003, from $17,244 as of December 31, 2002. The increase in our working capital deficit is primarily related to (1) the $4,720 increase in our deferred revenues from December 31, 2002 to 2003 due to our network service offering, (2) the increase to our asset-backed credit facility of $3,041 from December 31, 2002 to 2003 due to new borrowings in 2003, (3) the increase in accounts payable of $3,165 from December 31, 2002 to 2003 and (4) partially offset by the increase in our current assets of $2,058 due to the reclassification of our investment in the preferred stock of BUI from long term to current as of December 31, 2003.

Cash used by operating activities during 2003 was $8,315 as compared to $4,871 during 2002. The net increase in cash used in 2003 was primarily due to the increase in 2003 of $5,944 in our accounts receivable resulting from the acquisition of RSL at the end of 2002 and Transpoint in 2003 compared to an increase in 2002 of $1,269, the existence of an impairment of long-lived assets in 2002 of $3,609, the receipt in 2003 of $1,100 in stock as consideration for one of our technology licenses and offset by an increase in deferred revenue of $4,720 in 2003 compared to a decrease of $1,643 in 2002. The change in deferred revenue is related to our network service offering which we ceased in July 2003. Cash used in operating activities during 2001 was $29,283. The decrease from 2001 to 2002 is primarily due to a decrease in our net loss which resulted from improved operating performance by our Retail segment in 2002 as compared to 2001 and continued downsizing of Acceris' network and development operations.

Cash utilized in investing activities

Net cash used in investing activities in 2003 was $1,827 as compared to net cash used of $9,233 in 2002 and $15,410 in 2001. In 2003, cash used by investing activities relates to the purchase of equipment in the amount of $2,036 and a payment of $100 for the purchase of US Patent No. 6,243,373. This was offset by cash received from the sale of assets in the amount of $160. The decrease from 2002 to 2003 relates primarily to the purchase of RSL in 2002 for approximately $8,276. The purchase of Transpoint in 2003 was accomplished by converting trade payables due to Acceris (which were paid over time by Acceris on behalf of Transpoint) into equity of Transpoint in accordance with the purchase agreement. The payment of trade payables by Acceris on behalf of Transpoint has been accounted for in cash flows from operating activities in 2002 and 2003 and amounted to approximately $2,882 paid from the period July 2002 through July 2003. Also in 2002, we acquired $1,649 in furniture, fixtures, equipment and software as we expanded our operations and continued to improve our network in order to reduce its overall operating cost, offset by proceeds of $692 on the sale of a building.

In 2001, cash used by investing activities was primarily due to the $13,447 purchase of WorldxChange assets and the purchase of approximately $1,963 of furniture, fixtures, equipment and software.

Cash provided by financing activities

Financing activities provided net cash of $8,555 in 2003 as compared to cash provided of $13,061 in 2002 and $47,200 in 2001. The decrease from 2002 to 2003 primarily relates to the fact that in 2003 we received $7,896 in funding from Counsel, which included cash to fund ongoing operations and continue the reorganization of the business, while in 2002 we received $16,823 in funding from Counsel (offset by principal repayments of $3,000 during 2002). The cash received from Counsel in 2002 was primarily for the purchase of certain assets of RSL and to fund operations.

In 2001, Counsel provided advances of $43,920 (offset by principal repayments of $2,500) to fund the purchase of WorldxChange and general operating costs. Additionally, we made net borrowings from our revolving line of credit of $6,996.

Contractual Obligations

We have various commitments in addition to our debt. The following table summarizes our contractual obligations at December 31, 2003:

	Payment due by period				
Contractual obligations:	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long term debt obligations	$49,372	$13,381	$35,583	$ 349	$ 59
Capital lease obligations	$ 4,346	$ 2,715	$ 1,631	$ —	$ —
Operating leases for office space and equipment	$ 7,047	$ 2,373	$ 3,263	$1,115	$296
Purchase commitments for telecommunications services (1)	$ —	$ —	$ —	$ —	$ —

(1) From time to time, Acceris has various agreements with national carriers to lease local access spans and to purchase carrier services. The agreements include minimum usage commitments with termination penalties up to 100% of the remaining commitment. At December 31, 2003 all of our minimum usage commitments have been met.

Consolidated Results of Operations

We have provided consolidated and segmented reporting on an annual and rolling quarter basis as we believe that this is an appropriate way to review the financial results of the business. The following consolidated discussion and analysis should be read in conjunction with results by segment below.

Key selected financial data for the three years ended December 31, 2003, 2002 and 2001 are as follows:

(in 000's)	2003	2002	2001	Percent Change 2003 vs 2002	Percent Change 2002 vs 2001
Revenues:					
Telecommunications services	$133,765	$ 85,252	$ 50,289	57	70
Technology licensing and development	2,164	2,837	5,697	(24)	(50)
Total revenues	135,929	88,089	55,986	54	57
Operating costs and expenses:					
Telecommunications network expense (exclusive of depreciation shown below)	86,006	50,936	35,546	69	43
Selling, general, administrative and other	57,264	33,015	30,790	73	7
Provision for doubtful accounts	5,438	5,999	2,861	(9)	110
Research and development	—	1,399	2,332	*	(40)
Depreciation and amortization	7,125	4,270	6,409	67	(33)
Total operating costs and expenses	155,833	95,619	77,938	63	23
Operating loss	(19,904)	(7,530)	(21,952)	164	(66)
Other income (expense):					
Interest expense	(8,162)	(7,894)	(4,693)	3	68
Interest and other income	1,216	395	81	208	388
Gain on sale of subsidiary	—	—	589	*	*
Total other income (expense)	(6,946)	(7,499)	(4,023)	(7)	86
Loss from continuing operations	(26,850)	(15,029)	(25,975)	79	(42)
Loss from discontinued operations, net of $0 tax	529	(12,508)	(18,522)	(104)	(32)
Net loss	$ (26,321)	$(27,537)	$(44,497)	(4)	(38)

2003 Compared to 2002

When considering the review of the results of continuing operations for 2003 compared to 2002, it is important to note the following significant changes in our operations that occurred in 2003 and 2002. Namely:

1. In July 2003, we acquired Transpoint. The operations of Transpoint from July 28, 2003 to December 31, 2003 have been included in the statement of operations for 2003. However, there were no such operations in 2002.

2. On December 10, 2002, we purchased the assets of RSL, including the assumption of certain liabilities. The RSL operations from January 1, 2003 to December 31, 2003 have been included in the statement of operations for the entire fiscal year. In 2002, the operations of RSL were included for the period December 10, 2002 to December 31, 2002.

3. On December 6, 2002, we entered into an agreement to sell substantially all of the assets and customer base of ILC. The sale closed on May 1, 2003. As a result of the agreement, the operational results related to ILC have been reclassified as discontinued operations in the current and prior years and accordingly are not included in the following analysis of continuing operations for 2003 or 2002.

4. In November 2002, we began to sell a network service offering provided by a new supplier. The sale of that service offering ceased in late July 2003. While this product has been discontinued, revenue is recognized as cash receipts become unencumbered, and we expect this to continue in 2004. See further discussion below, as well as in the section entitled "Critical Accounting Estimates."

Revenues:

The increase in Telecommunications services revenue to $133,765 in 2003 from $85,252 in 2002 is primarily related to the following events:

(1) In December 2002, we acquired certain assets of RSL from a bankruptcy proceeding. The acquisition has been accounted for under the purchase method of accounting and accordingly, revenue subsequent to the acquisition has been included in our revenue. There is a full year of RSL revenue included in 2003, versus less than one month in 2002. The operations of RSL provided approximately $15,300 in Telecommunications revenues in 2003, compared to approximately $2,500 for December 2002. Additionally, the operations of Transpoint which began in July provided approximately $2,055 in Telecommunications revenue during 2003, which was not present in 2002.

(2) We have continued to experience a decline in revenue from 10-10-XXX dial around services and from a related direct mail program launched in 2001 and curtailed in early 2002. In 2003, revenues from our dial around product were approximately $54,900 versus approximately $66,800 in 2002.

(3) We have experienced growth in our revenue from customers acquiring 1+ services through our growing commercial, ethnic and MLM channels on which we began to focus in early 2002. Revenues from our 1+ product were approximately $44,400 in 2003 versus approximately $15,791 in 2002.

(4) We launched a network service offering in 2002, which we curtailed in July 2003. We recognized revenues of approximately $7,629 in 2003 as cash receipts became unencumbered, compared to recognizing no revenues in 2002. At December 31, 2003, $4,621 in cash receipts remain encumbered and are accounted for as deferred revenues on our balance sheet. We anticipate that these receipts will become unencumbered and recognized as revenue in 2004.

(5) Although we continued to experience price erosion in 2003 in a very competitive long-distance market, our customer and traffic growth is outpacing this compression. The increase in number of subscribers from 279,532 at December 31, 2002 to 354,248 at December 31, 2003, coupled with the increase in traffic per user has driven the remainder of our increase in revenue, year-over-year. In 2003, we recognized approximately $97,756 of domestic and international long distance revenues (including monthly recurring charges and USF fees) on approximately 907,000,000 minutes, resulting in a blended rate of approximately $0.11 per minute. In 2002, we recognized approximately $82,466 of domestic and international long distance revenues on approximately 680,480,000 minutes, resulting in a blended rate of approximately $0.12 per minute.

Technology licensing and development revenues decreased $673 to $2,164 in 2003 from $2,837 in 2002. The decrease was related to having revenue from two contracts outstanding in 2003 compared to three in 2002. Technology licensing revenues are project-based and, as such, these revenues will vary from year to year based on the timing and size of the projects and related payments.

Operating costs and expenses:

The changes in operating costs and expenses are primarily related to the following:

(1) Telecommunications network expense – The $35,070 increase relates primarily to the inclusion of a full year of the operations of the RSL assets in 2003 as opposed to less than one month in 2002. In 2003, the operations of RSL's Enterprise business incurred approximately $15,279 in telecommunications network expense versus approximately $1,190 in December of 2002. The inclusion of a full year of activity for the Agent business of RSL, resulted in an increase of approximately $8,734. Additionally, we recognized an increase of approximately $7,112 in telecommunications network expense associated with our network service offering in 2003 over 2002.

(2) Selling, general, administrative and other ("SG&A")- The $24,249 increase relates primarily to the inclusion of a full year of the operations of RSL in 2003 as opposed to less than one month in 2002. In 2003, the operations of RSL's Enterprise business incurred approximately $10,378 in SG&A versus approximately $810 in December of 2002. The inclusion of a full year of activity for the Agent business of RSL combined with our existing Retail segment resulted in an increase in SG&A from 2002 to 2003 of approximately $13,471.

(3) Provision for doubtful accounts –The $561 decrease is primarily due to lower bad debt experience levels for our direct billed customers because of Company's implementation of a dedicated collection team in 2003. The provision for doubtful accounts as a percentage of total revenue was 4.0% in 2003 compared to 6.8% in 2002. This percentage decrease was also due to the revenue from our network service offering being recognized on an unemcumbered cash receipts method, which was $7,629 in 2003 and none in 2002. Additionally, in 2003 we recognized $25,615, versus $1,547 in 2002 in revenues from our Enterprise segment. The revenues for our Enterprise segment has a significantly lower bad debt experience than our Retail revenues.

(4) Depreciation and amortization – The increase relates primarily to tangible and intangible assets acquired pursuant to the RSL and Transpoint acquisitions. Depreciation and amortization on the assets purchased from RSL was approximately $1,800 for all of 2003, which was present for less than one month in 2002. Additionally, the intangible assets associated with the Transpoint purchase incurred additional amortization of approximately $245 during 2003, which was not present in 2002. The remainder of the increase is associated with depreciation on the purchase of new furniture, fixtures, equipment and software during the year.

(5) Research and development costs ("R&D") – We ceased our R&D activities in 2002. We will commence investing in R&D when it becomes necessary to supplement our existing technology platform.

Other income (expense):

The changes in other income (expense) are primarily related to the following:

(1) Interest expense - The $268 increase in interest expense primarily relates to interest on amounts owed to Counsel and on amounts owed on our asset-based facility. The increase year over year relates primarily to higher average outstanding loan amounts to both Counsel and our asset-based lender. The balance of our revolving credit facility was $12,127 and $9,086 at December 31, 2003 and 2002, respectively. This facility had an average interest rate of 6% during both years. The increased average loan balance created additional interest expense year-over-year of approximately $154. Counsel advanced us an additional $7,896 during 2003, which created additional interest expense from 2002 to 2003 of approximately $69.

(2) In November 2003, $40,673 of Counsel debt was converted into equity. We expect that in 2004, our interest expense will be significantly lower than 2003 due to the conversion. The Counsel debt carried an interest rate of 10%, therefore the conversion will lead to approximately $4,000 in annual interest savings. Such savings would be reduced by any future increases in debt.

(3) Other income - The $821 increase to other income is primarily related to the discharge of obligations from two settlement agreements completed during 2003 with network carriers, which totaled $1,141. In 2002, other income represents approximately $200 in income recorded when we were informed that we had funds on deposit with vendors that we had not known previously existed. The changes year to year in other income relate to items which are non recurring and we do not anticipate similar events to occur in 2004.

2002 Compared to 2001

When considering the results of continuing operations for 2002 compared to 2001, it is important to note the following significant changes in our operations that occurred in 2002 and 2001, namely:

1. On June 4, 2001, we completed the purchase of WorldxChange, which offered a dial-around telecommunications product. We did not offer a comparable product prior to June 4, 2001.

2. On December 10, 2002, we purchased the assets of RSL, including the assumption of certain liabilities. RSL offers voice services to residential and small business customers through an indirect sales channel. RSL also offers voice and data solutions to small and medium size enterprise customers through a direct sales channel. The RSL operations from December 11, 2002 to December 31, 2002 have been included in the statement of operations for 2002.

3. On December 6, 2002, we entered into an agreement to sell substantially all of the assets and customer base of ILC. The sale closed in the second quarter of 2003. As a result of the agreement, the operational results related to ILC have been reclassified as discontinued operations in 2002 and 2001 and accordingly are not included in the following analysis of continuing operations.

Revenues:

The increase in Telecommunications services revenue of $34,963 to $85,252 in 2002 from $50,289 in 2001 was primarily related to the following events:

(1) In June 2001, we acquired the long-distance operations of WorldxChange Communications Inc. from bankruptcy. The purchase was accounted for under the purchase method of accounting. Accordingly, revenue in 2001 was limited to revenue from the date of acquisition in June 2001 through the end of 2001 (approximately seven months) compared to twelve months of operations in 2002. The revenues from WorldxChange accounted for approximately $82,752 in 2002 and all of the Telecommunications revenues in 2001.

(2) In December 2002, we acquired the assets of the Agent and the Enterprise Direct business of RSL from bankruptcy. The acquisition was accounted for under the purchase method of accounting and accordingly, revenue of approximately $2,500 was recognized subsequent to the acquisition, which was not present in 2001.

The primary reason for the decrease of $2,860 in revenues for the Technology segment to $2,837 in 2002 from $5,697 in 2001 was due to the reduction in revenue recorded relating to a two-year licensing agreement which ended in May 2002. In 2002, we recorded revenue of approximately $1,667 on this contract, compared to approximately $5,000 in 2001.

Operating costs and expenses:

The changes in operating costs and expenses are primarily related to the following:

(1) Telecommunications network expense – The $15,390 increase related primarily to the inclusion of a full year of the operations of WorldxChange in 2002 as opposed to only seven months in 2001. On an annualized basis, telecommunications network expense decreased from 2001 to 2002. The decrease on an annualized basis correlated with a 14% increase in telecommunications services revenue margin (telecommunications services revenue compared to telecommunications network expense) in 2002 over 2001, primarily relating to improved network efficiency derived from reductions in operating costs and efficiencies relating to more scaled utilization of our network. Further, in 2002, we expensed approximately $2,000 of network service offering costs for which no revenue was recognized. This expense was not present in 2001.

(2) SG&A — The $2,225 increase related primarily to the inclusion of a full year of the operations of WorldxChange in 2002 compared to only seven months in 2001. This increase included $7,124 from our Retail segment and $777 from our Enterprise segment. The overall increase was partially offset by a decrease of $5,676 in advertising costs associated with the curtailment of a direct advertising program in the first quarter of 2002 that commenced in 2001.

(3) Provision for doubtful accounts — The $3,138 increase related primarily to the inclusion of a full year of operations of WorldxChange in 2002 compared to only seven months in 2001. Additionally, in 2002, we experienced a shift in channels resulting in more direct billing of customers, which incurs a larger percentage of uncollectible accounts.

(4) Depreciation and amortization — The $2,139 decline in depreciation and amortization was related to the decrease in amortization on our intangible assets of $2,350, as certain intangible assets associated with the purchase of WorldxChange became fully amortized. This decrease was partially offset by a full year of depreciation and amortization on the acquired tangible assets of WorldxChange and the acquired tangible and intangible assets of RSL.

(5) R&D — Over the past several years we have consolidated our research operations and curtailed research and development activities in order to concentrate our financial resources on sales and marketing of existing products. With the sale of the ILC business in December 2002, we have stopped our research and development activities, as evidenced by no expenses being incurred in 2003.

Other income (expense):

Overall the $3,476 increase in expense was directly related to interest expense on our increased debt from loans from Counsel (necessary to fund our continued cash operating requirements and acquisitions) of approximately $2,751, interest expense on our revolving credit facility which originated in December 2001 of approximately $447 and the inclusion of interest from WorldxChange capital leases for twelve months in 2002 as compared to seven months in 2001.

Other income in 2002 was primarily related to WorldxChange, who in the fourth quarter was informed that it had funds on deposit with certain carriers that it had not previously known existed. Upon verification of such deposits, we recorded the asset and recognized other income of approximately $200. We did not have similar transactions in 2001. The other changes from year to year relate to various items which do not recur from year to year and a decrease in interest earned in 2002 compared to 2001 which corresponds to the decrease in average cash balances on hand during the respective years and the reduction in interest rates during the same periods.

In December 2001, we sold our subsidiary Nexbell to an unrelated party. The sale was a sale of Nexbell's stock and accordingly the assets and liabilities of Nexbell were assumed by the purchaser with no further financial obligation on our part. At the time of the sale, the liabilities exceeded the assets of Nexbell and accordingly, we have recorded a gain on sale of subsidiary in the amount of approximately $589 (the amount by which the liabilities of Nexbell exceeded its assets).

Quarterly Analysis

Management believes that the most appropriate way to analyze Acceris is to examine the changes in the business quarter over quarter. Accordingly, we have presented the consolidated and segmented viewpoint on this basis.

	2002 (unaudited)				2003 (unaudited)				Full Year (audited)		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2001	2002	2003
Revenues:											
Retail	$22,811	$20,984	$19,835	$ 20,075	$ 23,272	$25,106	$26,069	$26,074	$ 50,289	$ 83,705	$100,521
Enterprise	—	—	—	1,547	7,095	6,747	5,854	5,919	—	1,547	25,615
Network service offering	—	—	—	—	—	4,142	3,079	408	—	—	7,629
Technologies	1,581	888	321	47	—	1,050	1,049	65	5,697	2,837	2,164
Total revenues	24,392	21,872	20,156	21,669	30,367	37,045	36,051	32,466	55,986	88,089	135,929
Operating costs and expenses:											
Telecommunications network expense (exclusive of depreciation shown below)	13,272	12,237	11,197	12,235	19,543	19,154	19,266	18,936	35,546	48,941	76,899
Network service offering	—	—	—	1,995	6,205	2,165	807	(70)	—	1,995	9,107
Selling, general, administrative and other	8,700	7,147	7,389	9,779	14,225	14,617	13,981	14,441	30,790	33,015	57,264
Provision for doubtful accounts	1,356	1,250	1,119	2,274	1,175	1,131	1,466	1,666	2,861	5,999	5,438
Research and development	383	465	317	234	—	—	—	—	2,332	1,399	—
Depreciation and amortization	1,021	1,019	985	1,245	1,826	1,758	1,993	1,548	6,409	4,270	7,125
Total operating costs and expenses	24,732	22,118	21,007	27,762	42,974	38,825	37,513	36,521	77,938	95,619	155,833
Operating loss	(340)	(246)	(851)	(6,093)	(12,607)	(1,780)	(1,462)	(4,055)	(21,952)	(7,530)	(19,904)
Other income (expense):											
Interest expense	(2,173)	(2,061)	(1,777)	(1,883)	(2,013)	(2,305)	(2,061)	(1,783)	(4,693)	(7,894)	(8,162)
Interest and other income	9	10	152	224	2	1	53	1,160	81	395	1,216
Gain on sale of subsidiary	—	—	—	—	—	—	—	—	589	—	—
Total other income (expense)	(2,164)	(2,051)	(1,625)	(1,659)	(2,011)	(2,304)	(2,008)	(623)	(4,023)	(7,499)	(6,946)
Loss from continuing operations	(2,504)	(2,297)	(2,476)	(7,752)	(14,618)	(4,084)	(3,470)	(4,678)	(25,975)	(15,029)	(26,850)
Gain (loss) from discontinued operations, net of $0 tax	(3,099)	(4,581)	(1,463)	(3,365)	(277)	371	213	222	(18,522)	(12,508)	529
Net loss	$ (5,603)	$ (6,878)	$ (3,939)	$(11,117)	$(14,895)	$ (3,713)	$ (3,257)	$ (4,456)	$(44,497)	$(27,537)	$ (26,321)

Revenues:

(1) Retail revenue grew in 2003 over 2002 due primarily to the inclusion of the Agent business of RSL, which we acquired on December 10, 2002. In the Retail market we experienced an increase in the volume of business, based on approximately 907,000,000 minutes carried over our network and over lines we lease from third parties during 2003 versus approximately 680,400,000 in 2002. Additionally, our number of customers grew from approximately 279,532 at December 31, 2002 to approximately 354,248 at the end of 2003. However, the average blended rate per minute (including domestic and international calls) declined throughout 2003, from approximately $0.12 per minute in 2002 to approximately $0.11 per minute in 2003. The ratio of international long-distance business to domestic long-distance continued at an approximately 65:35 ratio for 2002 and 2003.

(2) Enterprise revenues grew in 2003 due primarily to the inclusion of the Enterprise business of RSL, which was acquired on December 10, 2002. In 2003, the Enterprise business provided $25,615 in revenues, compared to $1,547 in 2002.

(3) Network service offering - We introduced a product in November 2002 which we ceased offering in July 2003. We recognized revenues of approximately $7,629 in 2003 as cash receipts became unencumbered and recognized no such revenue in 2002. Beginning in the second quarter of 2003, amounts collected from this offering were considered unencumbered and recognized as revenue. At December 31, 2003, $4,621 in cash receipts remains encumbered and is accounted for as deferred revenues on our balance sheet. We anticipate that the remainder of these receipts will become unencumbered and recognized as revenue in 2004.

(4) Technologies revenue is made up of several project-based contracts. Revenue in this business is volatile between reporting periods. In 2003, revenue reported is from two contracts and totals $2,164 in 2003, compared to $2,837 from three contracts in 2002.

(5) We expect that Retail revenue will increase in 2004 as we continue to offer local telephone services to additional markets throughout the United States.

Telecommunications network expense:

(1) Costs grew in 2003 over 2002 in line with the level of revenue, due to increased traffic on our network and on the lines we lease from third parties. The increase in volume is directly related to the inclusion of a full year of activity for the Agent business of RSL, which resulted in an increase in telecommunications network expense of approximately $8,734. Additionally, we recognized an increase of approximately $7,112 in telecommunications network expense associated with our network service offering in 2003 over 2002.

(2) Our networks continued to operate in 2003 below 50% utilization, which is consistent with 2002. The operation of the network has many fixed cost elements and changes in network utilization affects the Telecommunications division's operating loss. In 2004, we expect network utilization to improve due to anticipated increases in network traffic and by taking traffic on low volume parts of the network "off-net" and removing under performing parts of the network. "Off-net" traffic refers to that which we transport on network lines leased from third parties.

(3) We acquire telecommunications services from a number of carriers and pricing obtained from those carriers affects Telecommunications' operating loss.

(4) We are subject to telecommunications taxes, and the calculation and mandated contribution rates change from time to time which affects our costs from period to period.

(5) The destination of customers' long-distance calls, particularly international calls, affects the Telecommunications network expense and overall profitability.

We expect that Telecommunications' operating loss will decrease in 2004 over 2003 as we increase network utilization by adding traffic and taking traffic off-net in low or negative contribution parts of the United States.

Operating costs and expenses:

(1) SG&A – Costs increased primarily due to the acquisition of certain assets of RSL in December 2002 and the acquisition of Transpoint in July 2003. Throughout 2003, we have been integrating these two businesses, as well as WorldxChange, and have been developing an infrastructure that allowed us to enter the local business. As our integration continues, we expect SG&A as a percent of revenue to decline during 2004. The inclusion of a full year of activity for the Agent business of RSL combined with our existing Retail segment resulted in an increase in SG&A from 2002 to 2003 of approximately $13,343, while the inclusion of a full year of activity of the Enterprise business of RSL accounted for an increase of approximately $9,568.

(2) Provision for doubtful accounts – Improvement as a percent of revenue from 6.8% in 2002 to 4.0% in 2003 has occurred due to improved credit and collection processes and due to the use of the unencumbered cash receipts method of revenue recognition for our network service offering. We recognized approximately $7,629 in revenue during 2003 associated with this product which, due to the unencumbered cash method of accounting, experiences significantly less bad debt.

(3) Research & development – We ceased our R&D activities in 2002. We will commence investing in R&D when it becomes necessary to supplement our existing technology platform.

(4) Depreciation and amortization – Pursuant to the acquisition of RSL and Transpoint we acquired certain tangible and intangible assets, which are being amortized over one to five years. Depreciation and amortization on the assets purchased from RSL was approximately $1,800 for all of 2003, which was present for less than one month in 2002. Additionally, the intangible assets associated with the Transpoint purchase accumulated additional amortization of approximately $245 during 2003, which was not present in 2002. The remainder of the increase is associated with depreciation on new furniture, fixtures, equipment and software purchased during the year.

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.

	2003			
(In millions of dollars, except where indicated)	**Q1**	**Q2**	**Q3**	**Q4**
Gross revenues - product mix				
Domestic long-distance	$ 7.8	$ 7.8	$ 7.4	$ 7.5
International long-distance	12.8	14.4	15.3	15.1
Total retail voice traffic revenues	20.6	22.2	22.7	22.6
MRC/USF (1)	2.3	2.4	2.8	3.0
Dedicated voice	0.4	0.3	0.4	0.4
Total retail revenues	23.3	24.9	25.9	26.0
Enterprise revenues	7.1	6.8	5.9	5.9
Other	—	0.1	0.2	—
Total telecommunications revenue	30.4	31.8	32.0	31.9
Network service offering	—	4.1	3.1	0.4
Technology revenues	—	1.1	1.0	0.1
Total revenues	$ 30.4	$ 37.0	$ 36.1	$ 32.4
Gross revenues - product mix (in number of minutes)				
Domestic long-distance	135,236,248	140,798,912	134,198,098	121,880,023
International long-distance	83,191,655	93,896,850	98,873,877	98,978,290
Dedicated voice	9,571,155	7,772,277	9,364,583	8,653,038
Retail subscribers (in number of people):				
Dial-around (2)	228,330	215,187	206,937	192,678
1+ (3)	136,896	174,486	168,242	161,570
Total subscribers	365,226	389,673	375,179	354,248
Average revenues per user (retail): (4)				
Dial-around	$ 21.51	$ 19.94	$ 20.71	$ 21.75
1+	$ 23.27	$ 23.84	$ 25.16	$ 25.61
Telecommunications revenue by customer type:				
Dial-around	$ 14.8	$ 13.3	$ 13.7	$ 13.3
1+	8.5	11.6	12.2	12.7
Enterprise	7.1	6.8	5.9	5.9
Other	—	0.1	0.2	—
Total telecommunications revenues	$ 30.4	$ 31.8	$ 32.0	$ 31.9
Gross revenue - product mix (%):				
Domestic long-distance	33.5%	31.4%	28.6%	28.9%
International long-distance	54.9	57.8	59.1	58.1
MRC/USF	9.9	9.6	10.8	11.5
Dedicated voice	1.7	1.2	1.5	1.5
Total retail revenues	100.0%	100.0%	100.0%	100.0%
Total enterprise revenues (%):				
Voice	51.4%	51.2%	50.1%	48.4%
Data	43.4	41.6	44.2	44.9
Other	5.2	7.2	5.7	6.7
Total enterprise	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-XXXX 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 revenues per user is calculated as the revenues for the last month of the quarter divided by the number of users at the end of the quarter.

Segmented Analysis:

Telecommunications - Retail
(all amounts in thousands)

	2002				2003				Full Year	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2002	2003
Revenues:										
Retail	$22,811	$20,985	$19,834	$20,076	$ 23,272	$25,106	$26,069	$26,074	$83,706	$100,521
Network service offering	—	—	—	—	—	4,142	3,079	408	—	7,629
Total	22,811	20,985	19,834	20,076	23,272	29,248	29,148	26,482	83,706	108,150
Operating costs and expenses:										
Telecommunications network expense (exclusive of depreciation shown below)	13,272	12,237	11,198	10,272	14,714	15,210	16,034	15,666	46,979	61,624
Network service offering	—	—	—	1,995	6,205	2,165	807	(70)	1,995	9,107
Selling, general, administrative and other	8,828	7,430	7,554	10,656	11,940	11,345	12,271	12,385	34,468	47,941
Depreciation and amortization	980	977	966	1,133	1,164	1,163	1,452	1,104	4,056	4,883
Total operating costs and expenses	23,080	20,644	19,718	24,056	34,023	29,883	30,564	29,085	87,498	123,555
Operating loss	(269)	341	116	(3,980)	(10,751)	(635)	(1,416)	(2,603)	(3,792)	(15,405)
Interest and other income (expense), net	(1,168)	(926)	(574)	(255)	(632)	(852)	(673)	(259)	(2,923)	(2,416)
Segment loss	(1,437)	(585)	(458)	(4,235)	(11,383)	(1,487)	(2,089)	(2,862)	(6,715)	(17,821)

Revenues

Retail revenues increased $24,444 to $108,150 for 2003 as compared to $83,706 for 2002. The increase was primarily due to:

- incremental revenue of approximately $14,855 associated with growth in the subscriber base primarily due to the December 2002 acquisition of the Agent business of RSL and the July 2003 acquisition of Transpoint.
- revenues of $7,629 representing actual cash collections from our network service offering that have been finalized during the first nine months of 2003 from billings prior to December 31, 2003. Revenue from this product is accounted for when the actual cash collections to be retained by the company are finalized. There was no comparable source of revenue in 2002.

Operating costs and expenses

Retail's telecommunications network expense and network service offering expense for 2003 and 2002 totaled $70,731 and $48,974, respectively. The increase in 2003 over 2002 relates primarily to:

- inclusion of approximately $10,095 in network expenses associated with growth in the subscriber base primarily due to the December 2002 acquisition of the Agent business of RSL and the July 2003 acquisition of Transpoint.
- inclusion of network expenses of $9,107 related to the sale of a network service offering in 2003 versus $1,995 in 2002.

Retail's SG&A was $47,941 in 2003, up from $34,468 in 2002. The increase in 2003 over 2002 primarily relates to:

- an increase in personnel costs of approximately $2,800 from 2002 to 2003 primarily relating to the increase in number of employees,
- an increase of $9,650 in billing and collection charges and outside agent commissions when compared to 2002 relating primarily to the increase in Retail revenue,
- an increase in professional fees in 2003 of approximately $4,020 compared to 2002 and
- partially offset by a decrease of $1,463 in advertising costs from 2002 to 2003, which decrease relates to the curtailment of a direct advertising program in the first quarter of 2002.

In the first quarter of 2003, we negotiated and received a concession from one new significant supplier of a network product. We negotiated a reduction in costs payable to the supplier of approximately $4,463 of which $2,999 was recovered in the first quarter by reduction of commissions otherwise payable to the supplier. During the second quarter of 2003 we recovered an additional $1,150 by reduction of commissions otherwise payable. The balance of approximately $314 was recovered in the third quarter by withholding commissions that would otherwise be payable to the supplier.

Retail's depreciation and amortization was $4,883 in 2003 compared to $4,056 in 2002. The increase in 2003 over 2002 primarily relates to the inclusion of the Agent business of RSL (acquired in December 2002) and the Transpoint business (acquired in July 2003) for which there was no comparable expense in the same period of 2002. Assets subject to depreciation and amortization totaling approximately $7,673 were acquired in connection with these purchases.

Retail's interest and other expense was $2,416 in 2003 compared to $2,923 in 2002. The decrease in 2003 over 2002 primarily relates to a decrease of $519 in amortization of debt discount related to the value of warrants issued to Counsel in 2002 which did not recur in 2003.

The Retail business approaches the market through the MLM ethnic and commercial agent channels.

In 2004, we expect to bundle our competitive long-distance rates with the recently launched local service and other enhanced products to offer a unique, in-language suite of integrated services targeted at specific ethnic markets. From the first voice a customer hears through to the receipt of an invoice, all communications with our customers will now be in their own language. Currently, we are targeting customers who frequently call India, China, Brazil, Latin America and Eastern Europe, and we intend to expand this scope going forward.

Our commercial agent channel will continue to focus on providing the highest levels of service at the most competitive price, helping our agent customers become more successful. In 2004, we launched a loyalty program to reward those agents who increase their business with us with warrants to purchase common stock.

As our revenue mix changes in 2004, our contribution from this business is expected to improve for three primary reasons:

1) We expect to increase the revenue per customer by converting existing customers to our bundled offering while attracting new customers at higher average revenue rates due to the expanded service offering i.e., local and long-distance versus only long-distance in 2003 and prior.

2) We have commenced the roll out of our internally developed VoIP and enhanced services complemented by deploying the latest solutions available from Nortel. This will be coupled with the consolidation of our network operating centers from two to one and the reduction of the unprofitable parts of our network.

3) The continued deployment of technology and standard process and consolidation of our back office functions, teamed with our shift toward increased direct billing and the attraction of a customer base with a longer average life will improve our return on investment for each customer.

Telecommunications – Enterprise

	2002 (unaudited)				2003 (unaudited)				Full Year (audited)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2002	2003
Revenues:										
Enterprise	—	—	—	1,547	7,095	6,747	5,854	5,919	1,547	25,615
Operating costs and expenses:										
Telecommunications network expense (exclusive of depreciation shown below)	—	—	—	1,190	4,829	3,944	3,233	3,273	1,190	15,279
Selling, general, administrative and other	—	—	—	810	2,793	2,685	2,222	2,678	810	10,378
Depreciation and amortization	—	—	—	158	661	596	540	444	158	2,241
Total operating costs and expenses	—	—	—	2,158	8,283	7,225	5,995	6,395	2,158	27,898
Operating loss	—	—	—	(611)	(1,188)	(478)	(141)	(476)	(611)	(2,283)
Interest and other income (expense), net	—	—	—	(18)	(89)	(90)	(89)	(24)	(18)	(292)
Segment loss	—	—	—	(629)	(1,277)	(568)	(230)	(500)	(629)	(2,575)

Revenues

Revenues from Enterprise in 2003 came from the Enterprise business of RSL, which we acquired in December 2002. Accordingly, the Enterprise segment had no revenues in the first eleven months of 2002. Revenues of $25,615 have been included in 2003, compared to $1,547 in 2002.

Operating costs and expenses

- Enterprise accounted for $15,279 of the total network expense in 2003, compared to $1,190 in 2002, as Enterprise was only a part of operations for less than one month during 2002.
- Enterprise accounted for $9,568 of our overall increase in selling, general, administrative and other expense in 2003.
- Enterprise recorded $2,241 in depreciation and amortization in 2003.

- Enterprise recorded $292 in interest and other expense (net of other income) in 2003.

Our Enterprise channel is targeted at medium-sized companies where we can be more competitive on level of service and price. We believe our customer service is second to none as clients are assigned a dedicated Acceris representative responsible for ensuring the customer's needs are met. We have also established strong relationships with all major telecommunications carriers, and are thus able to design a fully managed system for our customers utilizing a combination of carriers that best suits their objectives.

Following our acquisition of the Enterprise business of RSL, we continue to deliver the high level of service that RSL has historically brought to the market place, which has been the hallmark of its reputation. The revenue decline experienced during the year was due to the loss of several customers who made the decision to change providers while the business was in a bankruptcy proceeding as well as normal turnover. Following the acquisition, we started to implement customer attraction strategies in this business, which has a lengthy sales cycle. This strategy involved putting a new sales team in place. We expect in 2004 that our customer attraction/retention initiatives, coupled with our back office integration initiatives, will lead to improved results of operations from the Enterprise segment.

Technologies

	2002 (unaudited)				2003 (unaudited)				Full Year (audited)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2002	2003
Revenues:										
Technology	$1,580	$888	$ 322	$ 47	$ —	$1,050	$1,049	$ 65	$2,837	$2,164
Operating costs and expenses:										
Selling, general, administrative and other	625	684	491	50	73	575	282	220	1,850	1,150
Depreciation and amortization	36	19	19	(63)	—	—	—	—	11	—
Total operating costs and expenses	661	703	510	(13)	73	575	282	220	1,861	1,150
Operating loss	919	185	(188)	60	(73)	475	767	(155)	976	1,014
Interest and other income (expense), net	—	—	—	—	—	—	—	—	—	—
Segment income (loss)	$ 919	$185	$(188)	$ 60	$(73)	$ 475	$ 767	$(155)	$ 976	$1,014

Revenues

Technologies is the segment responsible for licensing and related services revenue. Technologies had revenues of $2,164 in 2003 as compared to $2,837 in 2002. The revenues in 2003 relate to two contracts. The first contract was entered into in the first quarter of 2003 for which acceptance was obtained in the second quarter. The contract involves both technology licensing and the provision of services. Revenues from the contract are being recognized over the service period starting with acceptance in the second quarter and will continue during the period of our continued involvement. During 2003 we recognized $1,563 in revenue from this customer. The second contract was entered into with a Japanese company in the third quarter of 2003 when delivery, acceptance and payment were all completed resulting in the recognition of $600 during the third quarter of 2003. The contract allows for additional future revenues of up to $1,250, contingent upon future events including the issuance of patents in Japan consistent with our existing United States patents. Subsequent to year end, the Company recognized approximately $750 in revenues pursuant to a cash receipt in March 2004. If and when the future events occur, the Company will recognize the additional revenues. The Company has no continuing obligation related to this contract. Revenues in 2002 related to three contracts no longer in effect in 2003. 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.

Technologies' SG&A was $1,150 in 2003 as compared to $1,850 in 2002. The decrease is directly related to a decrease in R&D in 2002 to 2003 of approximately $1,399. Offsetting this decrease, was an increase associated with our addition of employees to this division in 2003, principally a president and an independent sales agent. The president of this division resigned at the end of 2003 and we expect to see a decrease in SG&A costs in 2004.

Technologies recorded no depreciation expense in 2003 and minimal depreciation in 2002.

One of our most exciting developments in 2003 was the acquisition of a second patent related to VoIP. Utilizing our patented technology, VoIP enables telecommunications customers to originate a phone call on a traditional handset, transmit any part of that call via the Internet, and then terminate the call over the traditional telephone network. This new patent acquisition combined with our existing Acceris patent, creates an international patent portfolio covering the basic process and technology that enables VoIP communications, and transforms Acceris into a major participant in the provision of VoIP solutions. Going forward, we intend to aggressively pursue recognition of our intellectual property in the marketplace through a focused licensing program.

Revenue and contributions from this business to date have been based on the sales and deployments of our VoIP solutions, which will continue. The timing and sizing of various projects will result in a continued pattern of mixed quarterly results.

Risk Factors

Operational Risks

We are dependent upon outside financing to meet our ongoing capital requirements.

We have incurred substantial operating losses and negative cash flows from operations since inception and have a net capital deficiency and negative working capital. We have historically financed our operations through related party debt with our controlling stockholder and a revolving credit facility with an outside party.

We are primarily dependent upon an ongoing commitment from Counsel to fund, through long-term intercompany advances or equity contributions, all of our capital investment, working capital or other operational cash requirements through June 30, 2005.

While Counsel did convert approximately $40,673 of its debt into 13,428,492 shares of our common stock on November 26, 2003, thereby remaining the single largest stockholder of Acceris, there remains significant debt to Counsel of $35,073 at December 31, 2003. The remaining debt matures on June 30, 2005 and the commitment from Counsel to fund us also terminates on June 30, 2005. Subsequent to June 30, 2005, should Counsel not extend its commitment to provide us financial support, and in the event cash flow from operations is insufficient to cover the maturing debt, we would be required to restructure our debt with Counsel and/or further extend payments of principal or interest or find alternative funding to replace the related party debt and funding commitment. There can be no assurance that we will be able to do so. If we are not, we may have to evaluate opportunities to sell assets or obtain alternative financing with terms that are not favourable to us. Even if we were able to do so, such restructuring may be done on terms and conditions that are not favorable to the Company.

Our operations are dependent on leased telecommunications lines.

We use other companies to provide data communications capacity via leased telecommunications lines and services to and from geographic areas that are not covered by our own network. MCI, Verizon, AT&T, Global Crossing, Qwest and other regional companies provide significant portions of the leased telecommunications lines and services that we use. If any of these suppliers were unable or unwilling to provide or expand their current levels of service to us in the future, the services we offer our subscribers would be affected. Although leased telecommunications lines are available from several alternative suppliers, we might not be able to obtain substitute services from other providers at reasonable or comparable prices or in a timely fashion. Significant interruptions of our telecommunications services might occur in the future, and we might not be able to provide the level of service we currently offer. Changes in tariffs, regulations, or policies by any of our telecommunications providers might limit or eliminate our ability to continue to offer long-distance service on commercially reasonable or profitable terms.

We are dependent upon the services of others for billing, collection and network services.

We utilize the services of certain CLECs to bill and collect from customers for a significant portion of our revenues. If the CLECs were unwilling or unable to provide such services in the future, we would be required to significantly enhance our billing and collection capabilities in a short amount of time and our collection experience could be adversely affected during this transition period. If the CLECs were unable to remit payments received from their customers relating to our billings, our operations and cash position could be adversely affected. Management believes we have strong business relationships with the CLECs.

We depend on certain large telecommunications carriers to provide network services for significant portions of our telecommunications traffic. If these carriers were unwilling or unable to provide such services in the future our ability to provide services to our customers would be adversely affected and we might not be able to obtain similar services from alternative carriers on a timely basis. Management believes we have strong business relationships with our important carriers.

We are a growing company that must attract new subscribers and minimize the rate of customer attrition in an industry with larger and better capitalized competitors.

We are a growing business that faces several challenges, especially when compared to larger companies in the same business, including:

- a small management team;
- limited capital and financial resources;
- our small size; and
- a small market share.

All these factors might make us unable to compete with larger, older, better capitalized businesses.

In order to increase our subscribers, we must be able to replace terminating subscribers and attract new subscribers. However, the sales and marketing expenses and other subscriber costs associated with attracting new subscribers are substantial. Our ability to improve or maintain operating margins will depend on the ability to retain and attract new subscribers. While we continue to invest resources in the telecommunications infrastructure, customer support resources, sales and marketing expenses and subscriber acquisition costs, our future efforts might not improve subscriber retention or acquisition.

We may not be able to utilize income tax loss carry forwards.

Restrictions in our ability to utilize income tax loss carry forwards have occurred in the past due to the application of certain change in ownership tax rules in the United States. There is no certainty that the application of these rules may not reoccur resulting in further restrictions on our income tax loss carry forwards existing at a particular time. Any such additional limitations could require us to pay income taxes in the future and record an income tax expense to the extent of such liability.

We could be liable for income taxes on an overall basis while having unutilized tax loss carry forwards since these losses may be applicable to one jurisdiction and or particular line of business while earnings may be applicable to a different jurisdiction and or line of business. Additionally, income tax loss carry forwards may expire before we have the ability to utilize such losses in a particular jurisdiction and there is no certainty that current income tax rates will remain in effect at the time when we have the opportunity to utilize reported tax loss carry forwards.

Acquisition of companies, products or technologies may result in disruptions in business and diversion of management attention, adversely impacting our business, results of operations and financial condition and make period to period comparisons difficult.

Acquisitions of complementary companies, products or technologies which we have recently made or which we may make in the future will require the assimilation of the operations, products and personnel of the acquired businesses and the training and motivation of these individuals. Acquisitions may therefore cause disruptions in operations and divert management's attention from day to day operations, which could impair our relationships with current employees, customers and strategic partners. Although we currently have no understandings, commitments or agreements with respect to any additional acquisitions, any such acquisitions may be accompanied by the risks commonly encountered in such transactions. We may also have to, or choose to, incur debt or issue equity securities to pay for any future acquisitions. The issuance of equity securities for an acquisition could be substantially dilutive to our stockholders' holdings. In addition, our profitability may suffer because of such acquisition-related costs or amortization costs for acquired goodwill and other intangible assets. Our inability to address such risks or fulfill expectations regarding revenues from acquired businesses, products and technologies could have a material adverse effect on our business, operating results and financial condition. We have completed several acquisitions over the past three years and may complete acquisitions in the future which make it difficult to compare our financial results on a period to period basis.

We must be able to develop and implement an expansion strategy and manage our growth.

Our ability to develop and implement an expansion strategy, manage the same and respond to growth will be critical to our success. To accomplish our growth strategy, we will be required to invest additional capital and resources and expand our geographic markets. We cannot assure you that we will be successful in developing, implementing or managing any such growth strategies. If we are successful in our growth strategy, there will be additional demands on our customer support, marketing, administrative and other resources. There can be no assurance we will be able to manage expanding operations effectively or that we will be able to maintain or accelerate our rate of growth.

We face risks inherent in new product and service offerings as well as new markets.

From time to time we introduce new products and services or expand our previous product and service offerings to our existing and target markets. For instance, in the fourth quarter of 2003 we announced the introduction of local exchange service under the terms of the Unbundled Network Element Platform authorized by the 1996 Act (for further discussion of the 1996 Act, see the heading "Government Regulation" in Item 1 entitled, Business). Our prospects must therefore be considered in light of the risks, expenses, problems and delays inherent in establishing new lines of business in a rapidly changing industry. Although we believe we can successfully differentiate our product and service offerings from others in the marketplace, we must be able to compete against other companies who may already be established in the marketplace and have greater resources. There can be no assurance we will be successful in adding products or services or expanding into new markets or that our administrative, operational, infrastructure and financial resources and systems will be adequate to accommodate such offerings or expansion.

We are dependent upon the services of independent agents.

Our market penetration primarily reflects the marketing, sales and customer service activities of our independent agents, who market our products and services on a commission basis. The use of these agents exposes us to significant risks, including the fact that we depend on the continued viability, loyalty and financial stability of our agents. Our future success depends in large part on our ability to recruit, maintain and motivate our agents. We are subject to competition in the recruiting of agents from other organizations that use the agents to market their products and services, including those that market telecommunications services. Because of the number of factors that affect the recruiting, performance and viability of our agents and our relationship with our agents, we cannot predict when or to what extent we will be able to continue to recruit, maintain and motivate agents effectively, nor can we predict the difficulties or costs associated with terminating any of our agency relationships.

We are reliant on our enterprise billing solution.

We rely on an enterprise billing solution to bill customers. If that technology fails to operate as expected, there is a risk that revenue could be lost or customers could be billed incorrectly.

Our principal stockholder has voting control over the Company.

As of December 31, 2003, Counsel owned over 90% of our outstanding common stock. As a result, Counsel controls all matters requiring approval by the stockholders including the election of the Board of Directors and significant corporate transactions. The Board of Directors establishes corporate policies and has the sole authority to nominate and elect our officers to carry out those policies. The control by Counsel could delay or prevent a change in control of Acceris, impede a merger, consolidation, takeover or other business combination involving Acceris and discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of Acceris. Other stockholders therefore will have limited participation in our affairs.

Our future performance relies on attracting and retaining key employees.

We have certain employees that we consider to be key. Many of these employees are involved in executing the strategy that will impact our planned results. If these key employees cease to be employed with us, planned results could be delayed or might not materialize. We mitigate this risk through the use of employment contracts, the formalization of our strategy and business plans and by ensuring the existence of timely knowledge exchange and collaboration.

Our Board of Directors may issue additional shares of preferred stock without stockholder approval.

Our Articles of Incorporation authorize the issuance of up to 10,000,000 shares of preferred stock, $10.00 par value per share. The Board of Directors is authorized to determine the rights and preferences of any additional series or class of preferred stock. The Board of Directors may, without stockholder approval, issue shares of preferred stock with dividend, liquidation, conversion, voting or other rights which are senior to our shares of common stock or which could adversely affect the voting power or other rights of the existing holders of outstanding shares of preferred stock or common stock. The issuance of additional shares of preferred stock may also hamper or discourage an acquisition or change in control of Acceris.

We are subject to litigation.

We, from time to time, are involved in various claims, legal proceedings and complaints arising in the ordinary course of business. We are not aware of any pending or threatened proceedings that would have a material adverse effect on our consolidated financial condition or future results.

We may be unable to maintain adequate insurance coverage.

We maintain insurance that includes liability coverage to protect us from claims made against us. Recent events have made liability insurance more expensive while at the same time reducing the scope of coverage. Our ability to maintain adequate insurance coverage at a reasonable cost may be impacted by market conditions beyond our control.

We have not declared any dividends on our common stock to date and have no intention of doing so in the foreseeable future.

The payment of cash dividends on our common stock rests within the discretion of our Board of Directors and will depend, among other things, upon our earnings, unencumbered cash, capital requirements and our financial condition, as well as other relevant factors. Payments of dividends on our outstanding shares of preferred stock must be paid prior to the payment of dividends on our common stock. We do not anticipate making any cash distributions on the common stock in the foreseeable future and investors in our common stock cannot rely on dividend income therefrom. Further, the terms of our operating subsidiary's revolving line of credit restricts the distribution to or payment of dividends to us.

We may fail to adequately protect our proprietary technology and processes, which would allow competitors to take advantage of our development efforts.

We own four patents and have several patent applications on file. The value of these patents has yet to be determined. If we fail to obtain or maintain adequate protections, we may not be able to prevent third parties from using our proprietary rights. Any currently pending or future patent applications may not result in issued patents. In addition, any issued patents may not have priority over any patent applications of others or may not contain claims sufficiently broad to protect us against third parties with similar technologies, products or processes. We also rely upon trade secrets, proprietary know-how and continuing technological innovation to remain competitive. We protect this information with reasonable security measures, including the use of confidentiality agreements with our employees, consultants and corporate collaborators. It is possible that these individuals will breach these agreements and that any remedies for a breach will be insufficient to allow us to recover our costs. Furthermore, our trade secrets, know-how and other technology may otherwise become known or be independently discovered by our competitors.

Industry Risks

The telecommunications industry in which we operate is subject to government regulation.

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 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 or 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 lower the price of our common stock.

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, thereby reducing profitability.

We must continue to have up to date technology and be attentive to general economic trends to compete in the communications services industry.

The market for telecommunications services is extremely competitive. To be competitive and meet changing customer requirements, we must be attentive to rapidly changing technology, evolving industry standards, emerging competition and frequent new software and service introductions.

We believe that our ability to compete successfully will depend upon a number of factors including, but not limited to:

—the pricing policies of our competitors and suppliers;

—the capacity, reliability, availability and security of our real-time IP network;

—the public's recognition of our name and products;

—the timing of our introductions of new products and services;

—our ease of access to and navigation of the Internet or other types of data communication networks;

—our ability in the future to support existing and emerging industry standards;

—our ability to balance network demand with the fixed expenses associated with network capacity; and

—our ability to deal with trends toward increasing wireless and decreasing wire line usage.

Many companies offer business communications services and compete with us at some level. These range from large telecommunications carriers such as AT&T, MCI, WorldCom and Sprint, to smaller, regional resellers of telephone line access. These companies, as well as others, including manufacturers of hardware and software used in the business communications industry, could in the future develop products and services that may directly compete with ours. These entities are far better capitalized than us and enjoy a significant market share in their industry segments. These entities also enjoy certain competitive advantages such as extensive nationwide networks, name recognition, operating histories and substantial advertising resources.

Our technology- related service revenues are derived from the licensing of our proprietary technology. New technologies may emerge that would make our product offering obsolete. This would require the pursuit of technological advances which would require substantial time and expense and may not succeed in adapting our technology offering to new or alternate technologies. In addition, there may be other companies attempting to introduce products similar to those we offer or plan to offer for the transmission of information over the Internet. We might not be able to successfully compete with these market participants.

The telecommunications market is volatile.

During the last several years, the telecommunications industry has been very volatile as a result of overcapacity, which has led to price erosion and bankruptcies. If we cannot control subscriber and customer attrition through maintaining competitive services and pricing, revenue could decrease significantly. Likewise, by maintaining competitive pricing policies, the revenue per minute we earn may decrease significantly. Both scenarios could result in us not meeting profitability targets.

Terrorist attacks or acts of war may seriously harm our business.

Terrorist attacks or acts of war may cause damage or disruption to our operations, employees, facilities and our customers, which could significantly impact our revenues, costs and expenses, and financial condition. The terrorist attacks that took place in the United States on September 11, 2001 were unprecedented events that have created many economic and political uncertainties, some of which may have a material adverse effect on our business, results of operations, and financial condition. The potential for future terrorist attacks, the national and international responses to terrorist attacks and other acts of war or hostility have created many economic and political uncertainties, which could also have a material adverse effect on our business, results of operations and financial condition in ways that management currently cannot predict.

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 principals 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.

This discussion and analysis should be read in conjunction with our Consolidated Financial Statements and Notes thereto included in Item 15 of this report. To aid in the understanding of our financial reporting, our most critical accounting policies are described below. 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. We have identified our most critical accounting estimates to be the following:

Revenue recognition:

Telecommunications - We recognize revenue for telecommunications services when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, our price to the customer is fixed and determinable and collection of the resulting receivable is reasonably assured. Revenue is derived from telecommunications usage based on minutes of use. Revenue derived from usage is recognized as services are provided, based upon agreed usage rates and is net of estimated bad debts, customer credits and billing errors, which are recorded at the same time the corresponding revenue is recognized. Revenue for a period is calculated from information received through our network switches. Bad debts, customer credits and billing errors are significant estimates made by management based on a number of factors including historical experience and current trends. See below for further discussion of our provision for bad debt. Revenues from billings for services rendered where collectibility is not assured are recognized when the final cash collections to be retained by the Company are finalized.

Network service offering - We began to sell a network service offering in November 2002, which we subsequently ceased selling in July 2003. We determined that collectibility of the amounts billed to customers was not reasonably assured at the time of billing. Under our agreements with the LECs, cash collections remitted to us are subject to adjustment, generally over several months. Accordingly, we recognize revenue when the actual cash collections to be retained by us are finalized and unencumbered. There is no further billing of customers for the network service offering subsequent to the program's termination. Also, at December 31, 2003, we had approximately $4,621 in cash receipts that were still subject to adjustment by the LECs and therefore encumbered. This amount is included in deferred revenue at December 31, 2003. We expect that a portion of these amounts will become unencumbered during 2004, and we will record revenues at such time that we finalize cash collection amounts with the LECs.

Technologies - Revenue from the sale of software licenses is recognized when a non-cancelable agreement is in force, the license fee is fixed or determinable, acceptance has occurred and collectibility is reasonably assured. Maintenance and support revenues are recognized ratably over the term of the related agreements. When a license of our technology requires our continued support or involvement, contract revenues are spread over the period of the required support or involvement.

Telecommunications network costs:

Costs associated with carrying telecommunications traffic over our network and over leased lines are expensed when incurred, based on invoices received from the service providers. If invoices are not available in a timely fashion, estimates are utilized to accrue for these telecommunications network costs. These estimates are based on the understanding of variable and fixed costs in our service agreements with these vendors in conjunction with the traffic volumes that has passed over the network and circuits provisioned at the contracted rates. Traffic volumes for a period are calculated from information received through our network switches. From time to time, we have disputes with our vendors relating to telecommunications network services provided and invoiced to us. In the event of such disputes, we record an expense based on our understanding of the agreement with that particular vendor, traffic information received from our network switches and other factors.

Provision for doubtful accounts:

Allowances for doubtful accounts are maintained for estimated losses resulting from the failure of customers to make required payments on their accounts. We evaluate our provision for doubtful accounts at least quarterly based on various factors, including the financial condition and payment history of major customers and an overall review of collections experience on other accounts and economic factors or events expected to affect our future collections experience. Due to the large number of customers that we serve, it is impractical to review the creditworthiness of each of our customers, although a credit review is performed for larger carrier and retail business customers. We consider a number of factors in determining the proper level of the allowance, including historical collection experience, current economic trends, the aging of the accounts receivable portfolio and changes in the creditworthiness of our customers.

Purchase accounting and intangible assets:

We account for intangible assets in accordance with SFAS No. 141, *Business Combinations* ("SFAS 141") and SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). All business combinations are accounted for using the purchase method and goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually. Intangible assets are initially recorded based on estimates of fair value at the time of the acquisition.

We assess the fair value of our segments for goodwill impairment based upon a discounted cash flow methodology. If the carrying amount of the segment assets exceed the estimated fair value determined through the discounted cash flow analysis, goodwill impairment may be present. We would measure the goodwill impairment loss based upon the fair value of the underlying assets and liabilities of the segment, including any unrecognized intangible assets and estimate the implied fair value of goodwill. An impairment loss would be recognized to the extent that a reporting unit's recorded goodwill exceeded the implied fair value of goodwill.

We performed our annual impairment test in the fourth quarters of 2003 and 2002. No impairment was present upon performing these tests. We cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base or a material negative change in its relationships with significant customers.

We regularly evaluate whether events or circumstances have occurred that indicate the carrying value of our other amortizable intangible assets may not be recoverable. When factors indicate the asset may not be recoverable, we compare the related future net cash flows to the carrying value of the asset to determine if impairment exists. If the expected future net cash flows are less than carrying value, impairment is recognized to the extent that the carrying value exceeds the fair value of the asset.

Deferred tax asset:

We perform a valuation on our deferred tax asset, which has been generated by a history of net operating loss carryforwards, at least annually, and determine the necessity for a valuation allowance. We evaluate which portion, if any, will more likely than not be realized by offsetting future taxable income. The determination of that allowance includes a projection of our future taxable income, as well as consideration of any limitations that may exist on our use of our net operating loss or credit carryforwards.

Litigation:

We are involved from time to time in various legal matters arising out of our operations in the normal course of business. On a case by case basis, we evaluate the likelihood of possible outcomes for this litigation. Based on this evaluation, we determine whether a liability is appropriate. If the likelihood of a negative outcome is probable, and the amount is estimable, we account for the liability in the current period. A change in the circumstances surrounding any current litigation could have a material impact on the financial statements.

Recent Accounting Pronouncements

See Note 4 to the Consolidated Financial Statements for a discussion of recent accounting pronouncements and their impact on our financial statements.

Item 7A. 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 US interest rates. Our cash equivalents are invested with high quality issuers and 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 December 31, 2003 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 $122 for the next twelve-month period. However, 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 December 31, 2003. 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 8. Financial Statements and Supplementary Data.

See Consolidated Financial Statements and supplementary data beginning on pages F-1 and S-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

As of the end of the period covered by this annual report, the Company carried out, under the supervision 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 are 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.

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

PART III

(All dollar amounts are presented in USD)

Item 10. Directors and Executive Officers of the Registrant.

Acceris' Articles of Incorporation, as amended, provide that the Board of Directors shall be divided into three classes, and that the total number of directors shall not be less than five and not more than nine. Each director shall serve a term of three years. At its February 12, 2003 meeting, the Board of Directors appointed Ms. Kelly D. Murumets to fill the vacancy created by the resignation of Mr. Norman Chirite, a Class II director, and on March 23, 2004, the Board appointed William H. Lomicka to fill a vacancy created by the resignation of Mr. Albert Reichmann. Mr. Walter resigned his position on April 5, 2004 and as of the date of this filing, the vacancy left by Mr. Walter has not been filled. As of April 5, 2004, the Board of Directors consists of seven members: two Class I directors (Messrs. Shimer and Weintraub), three Class II directors (Messrs. Toh, Heaton and Silber) and two Class III directors (Messrs. Lomicka and Ms. Murumets). Messrs. Shimer and Weintraub, the Class I directors, were elected at the November 2003 Annual Meeting of the Company's stockholders.

The following table sets forth the names, ages and positions with Acceris of the persons who currently serve as our directors and executive officers. There are no family relationships between any present executive officers and directors.

Name	Age (1)	Title
Allan C. Silber	55	Chairman of the Board of Directors and Chief Executive Officer
Kelly D. Murumets	40	Director and President
Hal B. Heaton	53	Director
Henry Y.L. Toh	46	Director
Samuel L. Shimer	40	Director
William H. Lomicka	67	Director
Stephen A. Weintraub	56	Director and Senior Vice President and Secretary
Gary M. Clifford	35	Vice President of Finance and Chief Financial Officer
James G. Ducay	45	Executive Vice President and Chief Operating Officer
Kenneth L. Hilton	51	Executive Vice President, Sales and Marketing

(1) As of April 5, 2004

Allan C. Silber, Chairman of the Board of Directors and Chief Executive Officer. Mr. Silber was elected to the Board of Directors as a Class II director in September 2001 and appointed as Chairman of the Board in November 2001. Mr. Silber is the chairman and CEO of Counsel Corporation, which he founded in 1979. Mr. Silber attended McMaster University and received a Bachelor of Science degree from the University of Toronto.

Kelly D. Murumets, Director and President. Ms. Murumets became a Class III director in February 2003. Ms. Murumets joined Counsel Corporation as Executive Vice President in February 2002 and was appointed President of Acceris 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 in 1996, where she was the recipient of the Gold Medal and Governor General's Award.

Hal B. Heaton, Director. Dr. Heaton was appointed by the Board of Directors as a Class II director on June 14, 2000 to fill a board vacancy. From 1982 to present he has been a professor of Finance at Brigham Young University and between 1988 and 1990 was a visiting professor of Finance at Harvard University. Dr. Heaton is a director of MITY Enterprises, Inc., a publicly traded manufacturer of furniture in Orem, Utah. Dr. Heaton holds a Bachelor's degree in Computer Science/Mathematics and a Master's in Business Administration from Brigham Young University, as well as a Master's degree in Economics and a Ph.D. in Finance from Stanford University.

Henry Y.L. Toh, Director. The Board of Directors elected Mr. Toh as a Class II director and as Vice Chairman of the Board of Directors in April 1992. Mr. Toh became President of Acceris in May 1993, Acting Chief Financial Officer in September 1995 and Chairman of the Board in May 1996, and served as such through September 1996. Mr. Toh serves as a director of: National Auto Credit, Inc. (previously an originator of sub-prime automobile financing that is transitioning into new lines of business) from 1998 through the present; Teletouch Communications, Inc., a retail provider of Internet, cellular and paging services, beginning in November 2001; and Isolagen, Inc., a biotechnology company, since 2003. He is also a director of Four M International Inc., a private investment firm. He is a graduate of Rice University.

Samuel L. Shimer, Director. Mr. Shimer was appointed by the Board of Directors as a Class I director on April 15, 2001 to fill a board vacancy and was appointed Senior Vice President, Mergers & Acquisitions and Business Development on February 12, 2003. From 1997 to February 2003 he was 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 Acceris. From 1991 to 1997, Mr. Shimer worked at two merchant banking funds affiliated with Lazard Frères & Co., Center Partners and Corporate Partners, ultimately serving as a Principal. Mr. Shimer earned a Bachelor of Science in Economics degree from The Wharton School of the University of Pennsylvania, and a Master's of Business Administration degree from Harvard Business School. Mr. Shimer terminated his employment with the Company on February 27, 2004 to join Whitney & Co., an asset management company. He remains a member of the Board.

William H. Lomicka, Director. Mr. Lomicka was appointed by the Board of Directors as a Class III director on March 23, 2004 to fill a board vacancy left by the resignation of Mr. Albert Reichmann. Mr. Lomicka has been a director of Counsel since June 26, 2002. Mr. Lomicka is Chairman of Coulter Ridge Capital, Inc. a private investment firm, a position he has held since 1999. Between 1989 and 1999 he was President of Mayfair Capital, Inc., a private investment firm. Mr. Lomicka is a director of Pomeroy IT Solutions and is also on the board of advisors of Valley Ventures, an Arizona venture capital fund. Mr. Lomicka is a graduate of the College of Wooster in Wooster, Ohio, and has a Master's of Business Administration degree from the Wharton School of the University of Pennsylvania.

Stephen A. Weintraub, Director and Senior Vice President and Secretary. Mr. Weintraub was elected as a Class I director on November 26, 2003, pursuant to a vote of the Company's stockholders. Mr. Weintraub joined Counsel in June 1983 as Vice President, Finance and Chief Financial Officer. He has been and is an officer and director of various Counsel subsidiaries. He has been Secretary of Counsel 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 Bachelor's degree in Commerce from the University of Toronto in 1969, qualified as a Chartered Accountant with Clarkson, Gordon (now Ernst & Young LLP) in 1972 and received his law degree (LL.B.) from Osgoode Hall Law School, York University in 1975.

Gary M. Clifford, Vice President of Finance and Chief Financial Officer. Mr. Clifford joined Counsel Corporation in November 2002 as, and presently is, its Chief Financial Officer. From June 1998 to October 2002, Mr. Clifford has held various senior roles at Leitch Technology Corporation in Finance, Operations and Corporate Development. From February 1996 to June 1998, Mr. Clifford worked for NetStar Communications Inc. Mr. Clifford is a Chartered Accountant, who articled with Coopers & Lybrand. A graduate of the University of Toronto, with a Bachelor's degree in Management, he has also lectured at Ryerson Polytechnic University in Toronto, Canada. Mr. Clifford was appointed as Vice President of Finance of Acceris on December 6, 2002 and Chief Financial Officer on February 12, 2003.

James G. Ducay, Executive Vice President and Chief Operating Officer. Mr. Ducay was named Executive Vice President and Chief Operating Officer of Acceris in October 2003. From December 2002 until October 2003, Mr. Ducay served as President of the Company's Enterprise business. Previously, from April 2000 to December 2002, Mr. Ducay was Executive Vice President and Chief Operating Officer of RSL COM USA ("RSL COM") with responsibility for Marketing, Sales and Account Services, Engineering and Operations and Information Technology. RSL COM filed for bankruptcy protection under Chapter 11 in March 2001. Before joining RSL COM, Mr. Ducay was Vice President of Marketing and Sales for Ameritech Interactive Media Services from February 1998 to April 2000 where he was responsible for managing Ameritech's Internet products and related sales channels. He also served as 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's Degree in Business Administration from the University of Chicago.

Kenneth L. Hilton, Executive Vice President, Sales and Marketing. Mr. Hilton was named Executive Vice President, Sales and Marketing of Acceris in October 2003. Previously, he was appointed Chief Executive Officer of WorldxChange Corporation in May 2002. From June 1999 to December 2001, Mr. Hilton served as the Chief Executive Officer of Handtech.com, an Internet-based start-up company in Austin, TX. that provided customized E-commerce storefronts, supply chain management and back office services to value-added resellers. Prior to Handtech.com, from October 1995 to May 1999, he 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. Prior to his 5 years at Excel, he ran North America operations for PageMart Wireless where he launched the Canadian business and also served as the Chairman of the Canadian Board. Prior to PageMart, Mr. Hilton held numerous sales and management positions with IBM. His 14-year career with IBM included sales, sales management, branch management and regional management positions.

Each officer of Acceris is appointed by the Board of Directors and holds his office at the pleasure and direction of the Board of Directors or until such time of his/her resignation or death.

There are no material proceedings to which any director, officer or affiliate of Acceris, any owner of record or beneficially of more that five percent of any class of voting securities of Acceris, or any associate of any such director, officer, affiliate of Acceris or security holder is a party adverse to Acceris or any of its subsidiaries or has a material interest adverse to Acceris or any of its subsidiaries.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership of equity securities of Acceris with the SEC. Officers, directors, and greater than ten percent stockholders are required by the SEC regulation to furnish us with copies of all Section 16(a) forms that they file.

Based solely upon a review of Forms 3 and Forms 4 furnished to us pursuant to Rule 16a-3 under the Exchange Act during our most recent fiscal year, to Acceris' knowledge, all reporting persons complied with all applicable filing requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, with the following exceptions: J. Ducay failed to timely file a Form 4 in December 2003, with respect to one transaction. K. Hilton failed to file a Form 4 in December 2003, with respect to two transactions. As of the date of this Annual Report, the foregoing reporting persons have regained compliance with Section 16(a) reporting requirements.

The Board of Directors

The Board of Directors oversees the business affairs of the Company and monitors the performance of management. The Board of Directors held 5 meetings during the fiscal year ended December 31, 2003. No incumbent director attended less than 75% of the Board meetings during 2003.

The Board of Directors has designated two standing committees: the Audit Committee and the Compensation Committee. We do not have a nominating or a corporate governance committee or any committees serving similar functions. However, corporate governance functions are included in the Audit Committee Charter. At the February 12, 2003 Board meeting, the Board of Directors resolved to eliminate Acceris' Finance Committee.

Committees of the Board of Directors

Audit Committee. On June 9, 2000, the Board of Directors approved Acceris' Audit Committee Charter, which was subsequently revised and amended on July 10, 2001 and again on February 12, 2003 in order to incorporate certain updates in light of the most recent regulatory developments, including the Sarbanes-Oxley Act of 2002. A copy of the current Audit Committee Charter was attached to the Company's Definitive Proxy Statement filed in October 2003 in connection with the 2003 Annual Meeting of Stockholders. The Audit Committee is responsible for making recommendations to the Board of Directors concerning the selection and engagement of independent auditors and for reviewing the scope of the annual audit, audit fees, results of the audit and auditor independence. The Audit Committee also reviews and discusses with management and the Board of Directors such matters as accounting policies, internal accounting controls and procedures for preparation of financial statements. Its membership is currently comprised of Mr. Heaton (chairman) and Mr. Toh. The Audit Committee held 6 meetings during the last fiscal year.

Compensation Committee. The Compensation Committee reviews and approves the compensation for executive employees. Its membership is currently comprised of Messrs. Heaton, Toh and Lomicka. The Compensation Committee held 1 meeting during the last fiscal year.

Audit Committee Financial Expert

The Board of Directors has determined that Mr. Henry Y.L. Toh, a member of the Audit Committee, is an audit committee financial expert as defined by Item 401(h) of Regulation S-K under the Exchange Act and is independent within the meaning of Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

Code of Ethics

Acceris has adopted a code of ethics that applies to its principal executive, financial and accounting officers. The Acceris Communications Inc., Code of Conduct (the "Code") is attached as Exhibit 14 hereto. A copy of the Code can also be found on the Company's website at http://www.acceris.com (follow Corporate Governance link to Governance Documents tab). The Company intends to satisfy the disclosure requirements under Item 10 of Form 8-K regarding any amendments to, or waivers from, a provision of the Code that applies to its principal executive, financial and accounting officers by posting such information on its website at the website address set forth above.

Item 11. Executive Compensation.

The following table sets forth the aggregate cash compensation paid for services rendered during the last three years by each person serving as our Chief Executive Officer during the last year and our other most highly compensated executive officers during the year ended December 31, 2003 whose compensation was in excess of $100,000 ("Named Officers").

	Annual Compensation				Long-Term Compensation			
					Awards		Payouts	
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compensation($)	Restricted Stock Awards($)	Securities Underlying Options(#)	LTIP Payouts($)	All Other Compensation($)
Allan Silber(1)	2003	—	—	—	—	—	—	—
Chief Executive Officer	2002	—	—	—	—	—	—	—
	2001	—	—	—	—	—	—	—
Kenneth L. Hilton (2)	2003	$275,000	$55,000	—	—	150,000	—	—
Executive Vice President,	2002	183,333	—	—	—	—	—	—
Sales and Marketing	2001	—	—	—	—	—	—	—
Barbara Jamaleddin (3)	2003	$211,000	$67,750	—	—	30,000	—	—
Senior Vice President of	2002	205,500	10,400	—	—	—	—	—
Network Operations	2001	115,256	7,692	—	—	—	—	—
James G. Ducay (4)	2003	$275,000	—	—	—	150,000	—	—
Executive Vice President,	2002	12,500	—	—	—	—	—	—
Chief Operating Officer	2001	—	—	—	—	—	—	—
Bobby Vannoy (5)	2003	$211,211	$57,750	—	—	30,000	—	—
Senior Vice President of	2002	205,705	15,000	—	—	—	—	—
Business Operations	2001	115,371	7,700	—	—	—	—	—
Gary Wasserson (6)	2003	$420,900	—	—	—	—	—	—
President (Acceris	2002	126,425	—	—	—	—	—	—
Communications Technologies, Inc.)	2001		—	—	—	—	—	—
Samuel N. Shimer (7)	2003	$276,000	—	—	—	—	—	—
Senior Vice President,	2002	—	—	—	—	—	—	—
Mergers and Acquisitions and Business Development	2001	—	—	—	—	—	—	—

(1) Mr. Silber was appointed interim Chief Executive Officer and President of Acceris as of December 19, 2002. In November 2003, Kelly D. Murumets was appointed President. Mr. Silber is entitled to an annual salary of $275,000 and a discretionary bonus equal to 100% of his base salary. For 2003, no bonus was awarded. Mr. Silber has elected to assign his salary payable at December 31, 2003 of $275,000 to Counsel. This amount is recorded as a liability to Counsel in the financial statements of Acceris at December 31, 2003.

(2) Mr. Hilton became the Chief Executive Officer of WorldxChange on May 1, 2002.

(3) Ms. Jamaleddin became a Senior Vice President of WorldxChange on June 4, 2001.

(4) Mr. Ducay became the President of the Enterprise segment of Acceris on December 10, 2002.

(5) Mr. Vannoy became a Senior Vice President of WorldxChange on June 4, 2001. Mr. Vannoy resigned from the Company in March 2004.

(6) Mr. Wasserson became the President of Acceris Communications Technoligies, Inc, a wholly owned subsidiary of the Company, in December 2002 and served as such until December 31, 2003. Mr. Wasserson's employment with the Company ceased as of December 31, 2003. Prior to December 2002, Mr. Wasserson was an employee of Counsel and was not paid a salary by Acceris.

(7) Mr. Shimer became the Senior Vice President, Mergers and Acquisitions and Business Development beginning January 1, 2003. Prior to 2003, Mr. Shimer was an employee of Counsel and was not paid a salary by Acceris. In February 2004, Mr. Shimer resigned from employment with the Company, but remains a member of the Board of Directors.

Option Grants in Last Fiscal Year (2003)

The following table shows information about stock option grants to the Named Officers during fiscal 2003. These options are included in the Summary Compensation Table above. These gains are calculated assuming annual compound stock price appreciation of 5% and 10% from the date the option was originally granted to the end of the option term. The 5% and 10% assumed annual compound rates of stock price appreciation are required by SEC rules, and are not the Company's estimate or projection of future stock prices.

The following table sets forth certain information concerning grants of stock options to each of the Named Officers during 2003:

Name	Individual Grants: Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Of Base Price ($/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates Of Stock Price Appreciation For Option Term: 5% ($)	10% ($)
Kenneth L. Hilton	150,000	11.6%	$3.00	December 20, 2013	$283,003	$717,184
Barbara Jamaleddin	30,000	2.3%	$3.00	December 20, 2013	$ 56,601	$143,437
James G. Ducay	150,000	11.6%	$3.00	December 20, 2013	$283,003	$717,184
Bobby Vannoy	30,000	2.3%	$3.00	December 20, 2013	$ 56,601	$143,437
Allan C. Silber	—	—	—	—	—	—
Gary Wasserson	—	—	—	—	—	—
Samuel N. Shimer	—	—	—	—	—	—

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values:

The following table shows information about the value realized on option exercises for each of the Named Officers during fiscal 2003, and the value of their unexercised options at the end of fiscal 2003. Value realized, or gain, is measured as the difference between the exercise price and market value or the price at which the shares were sold on the date of exercise.

Name	Shares Acquired On Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options At Fiscal Year-End (#) Exercisable/Unexercisable	Value of Unexercised In-The-Money Options At Fiscal Year-End ($) Exercisable/Unexercisable (1)
Allan C. Silber	—	—	— / —	— / —
Kenneth L. Hilton	—	—	— / 150,000	— / —
Barbara Jamaleddin	—	—	— / 30,000	— / —
James G. Ducay	—	—	— / 150,000	— / —
Bobby Vannoy	—	—	— / 30,000	— / —
Gary Wasserson	—	—	— / —	— / —
Samuel N. Shimer	—	—	— / —	— / —

(1) None of the unexercised options above are in the money, based on the closing price of the Company's common stock on December 31, 2003, which was $2.18 per share.

Director Compensation

Each year subsequent to 2002, all directors then serving who are not employed by Acceris or Counsel other than in their capacity as directors are to receive an option to purchase 1,000 shares of common stock and for each committee on which the director serves, an option to purchase 250 shares of common stock. The exercise price of such options is equal to the fair market value of the common stock on the date of grant. The directors are also eligible to receive options under our stock option plans at the discretion of the Board of Directors. No discretionary stock options were awarded to directors during 2003.

In addition, each independent director is compensated $1,000 for each in-person board meeting attended and $500 for each telephonic board meeting attended. During 2003, Messrs. Heaton and Walter received $18,000 and $7,000, respectively, in connection with the services that they rendered and $1,181 and $10,330, respectively, for reimbursement of expenses paid to attend various meetings.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

Kenneth L. Hilton Employment Contract. On May 1, 2002, Acceris and Kenneth L. Hilton entered into a four-year employment agreement pursuant to which Mr. Hilton became the Chief Executive Officer of WorldxChange Corp., Acceris' wholly-owned subsidiary. Mr. Hilton's annual salary is $275,000, and he is eligible for a discretionary bonus in an amount to be determined by the Board of Directors up to 100% of his annual salary. Counsel Communications and Counsel also entered into an agreement with Mr. Hilton dated May 1, 2002, under which agreement, Mr. Hilton was issued approximately 0.2% of the common units of Counsel Communications, which common units were to vest over a four-year period commencing on May 1, 2003. For additional disclosure of a loan to Mr. Hilton see Item 13.

James G. Ducay Employment Contract. On July 1, 2002, Acceris and James G. Ducay each entered into an employment agreement, which became effective on December 10, 2002, the date on which WorldxChange completed its acquisition of the assets of RSL, and expires on December 10, 2003. Mr. Ducay's annual salary is $275,000, and he is eligible for a discretionary bonus in an amount to be determined by the Board of Directors up to 100% of his annual salary. On January 1, 2004, Mr. Ducay entered into another employment agreement with the Company which is effective until January 1, 2005, under substantially the same material terms and provisions.

Stock Option Plans

At December 31, 2003, the Company has several stock-based employee compensation plans. All share amounts disclosed below reflect the effect of the 1-for-20 reverse stock split which was approved by the stockholders on November 26, 2003.

Director Stock Option Plan

The Company's Director Stock Option Plan authorizes the grant of stock options to directors of the Company. Options granted under the Director Stock Option Plan are non-qualified stock options exercisable at a price equal to the fair market value per share of common stock on the date of any such grant. Options granted under the Director Stock Option Plan are exercisable not less than six months or more than ten years after the date of grant.

As of December 31, 2003, options for the purchase of 233 shares of common stock at prices ranging from $17.50 to $77.50 per share were outstanding, all of which are exercisable. In connection with the adoption of the 1995 Director Plan, the Board of Directors authorized the termination of future grants of options under the Director Stock Option Plan; however, outstanding options will continue to be governed by the terms thereof until exercise or expiration of such options. In 2003, no options were exercised or expired.

1995 Director Stock Option and Appreciation Rights Plan

The 1995 Director Stock Option and Appreciation Rights Plan (the "1995 Director Plan") provides for the issuance of incentive stock options, non-qualified stock options and stock appreciation rights ("SARs") to directors of the Company up to 12,500 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events).

The 1995 Director Plan also provides for the grant of non-qualified options on a discretionary basis to each member of the Board of Directors then serving to purchase 500 shares of common stock at an exercise price equal to the fair market value per share of the common stock on that date. Each option is immediately exercisable for a period of ten years from the date of grant. The Company has 9,500 shares of common stock reserved for issuance under the 1995 Director Plan. As of December 31, 2003, options to purchase 8,500 shares of common stock at prices ranging from $20.00 to $25.00 per share are outstanding and exercisable. No options were granted or exercised under this plan in 2003, 2002 or 2001.

1995 Employee Stock Option and Appreciation Rights Plan

The 1995 Employee Stock Option and Appreciation Rights Plan (the "1995 Employee Plan") provides for the issuance of incentive stock options, non-qualified stock options, and SARs. Directors of the Company are not eligible to participate in the 1995 Employee Plan. The 1995 Employee Plan provides for the grant of stock options which qualify as incentive stock options under Section 422 of the Internal Revenue Code, to be issued to officers who are employees and other employees, as well as non-qualified options to be issued to officers, employees and consultants. In addition, SARs may be granted in conjunction with the grant of incentive and non-qualified options.

The 1995 Employee Plan provides for the grant of incentive options, non-qualified options and SARs of up to 20,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). To the extent that an incentive option or non-qualified option is not exercised within the period of exercisability specified therein, it will expire as to the then unexercisable portion. If any incentive option, non-qualified option or SAR terminates prior to exercise thereof and during the duration of the 1995 Employee Plan, the shares of common stock as to which such option or right was not exercised will become available under the 1995 Employee Plan for the grant of additional options or rights to any eligible employee. The shares of common stock subject to the 1995 Employee Plan may be made available from either authorized but unissued shares, treasury shares or both. The Company has 20,000 shares of common stock reserved for issuance under the 1995 Employee Plan. As of December 31, 2003, there were no options outstanding under the 1995 Employee Plan. During 2003, 2002 and 2001, options to purchase 6,763, 500 and 1,875, respectively, of common stock were forfeited or expired. No options were granted or exercised in 2003 under the 1995 Employee Plan.

1997 Recruitment Stock Option Plan

In October 2000, the stockholders of the Company approved an amendment of the 1997 Recruitment Stock Option Plan (the "1997 Plan") which provides for the issuance of incentive stock options, non-qualified stock options and SARs up to an aggregate of 370,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). The price at which shares of common stock covered by the option can be purchased is determined by the Company's Board of Directors; however, in all instances the exercise price is never less than the fair market value of the Company's common stock on the date the option is granted.

As of December 31, 2003, there were options to purchase 60,480 shares of the Company's common stock outstanding under the 1997 Plan. The outstanding options vest over three years at exercise prices of $1.40 to $127.50 per share. Options issued under the 1997 Plan must be exercised within ten years of grant and can only be exercised while the option holder is an employee of the Company. The Company has not awarded any SARs under the 1997 Plan. During 2003, 2002 and 2001, options to purchase 45,067, 42,968 and 130,022 shares of common stock, respectively, were forfeited or expired. There were no exercises during 2003.

2000 Employee Stock Purchase Plan

In October 2000, the stockholders of Acceris approved adoption of Acceris' 2000 Employee Stock Purchase Plan which plan provides for the purchase and issuance of common stock to all eligible employees (the "Stock Purchase Plan").

The purpose of the Stock Purchase Plan is to induce all eligible employees of Acceris (or any of its subsidiaries) who have been employees for at least three months to encourage stock ownership of Acceris by acquiring or increasing their proprietary interest in Acceris. The Stock Purchase Plan is designed to encourage employees to remain in the employ of Acceris. It is the intention of Acceris to have the Stock Purchase Plan qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code, as amended to issue shares of common stock to all eligible employees of Acceris (or any of Acceris' subsidiaries) who have been employees for at least three months.

The Stock Purchase Plan provides for the purchase of common stock in the aggregate, up to 125,000 shares of common stock. As of December 31, 2003, 2,900 shares of common stock had been purchased under the Stock Purchase Plan.

2003 Stock Option and Appreciation Rights Plan

In November 2003, the stockholders of the Company approved the 2003 Stock Option and Appreciation Rights Plan (the "2003 Plan") which provides for the issuance of incentive stock options, non-qualified stock options and SARs up to an aggregate of 2,000,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). The price at which shares of common stock covered by the option can be purchased is determined by the Company's Board of Directors or its committee; however, in the case of incentive stock options the exercise price shall not be less than the fair market value of the Company's common stock on the date the option is granted. There were stock options granted for 1,372,000 (and outstanding at December 31, 2003) under the 2003 Plan in 2003. The outstanding options vest over four years at an exercise price of $3.00 per share. No SARs have been issued under the 2003 Plan .

Compensation Committee Interlocks and Insider Participation

Mr. Toh was formerly an officer of the Company, as described above. No Compensation Committee members or other directors served as a member of the compensation committee of another entity, whose executive officers served as a director of Acceris.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table shows, as of April 5, 2004, the common stock and any preferred stock owned by each current director, Named Officer, other executive officers, all executive officers and current directors a group and, to the best of our knowledge, all other parties known to be beneficial owners of more than 5% of the common stock. As of the same date, there were 19,262,095 shares of common stock and 619 shares of Class N preferred stock issued and outstanding. The Class N preferred stock votes with the common stock on an as converted basis estimated to be 24,760 shares as of April 5, 2004.

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned	% of Common Stock Beneficially Owned(2)
Allan C. Silber	0(3)	*%
Kelly D. Murumets	0(4)	*%
Hal B. Heaton	7,948(5)	*%
Henry Y.L. Toh	18,575(6)	*%
William H. Lomicka	0(7)	*%
Stephen A. Weintraub	0(8)	*%
Samuel L. Shimer	0(9)	*%
Gary J. Wasserson	0(10)	*%
Gary M. Clifford	0(11)	*%
James G. Ducay	0(12)	*%
Kenneth L. Hilton	1,000(12)	*%
Barbara Jamaleddin	0(13)	*%
Bobby Vannoy	0(14)	*%
Counsel Corporation 130 King Street West, Exchange Tower, Suite 1300, Toronto, Ontario M5X1E3	20,141,664(15)	92%
All Executive Officers and Directors as a Group (13 people)	27,523	*%

* Indicates less than one percent

(1) Unless otherwise noted, all listed shares of common stock are owned of record by each person or entity named as beneficial owner and that person or entity has sole voting and dispositive power with respect to the shares of common stock owned by each of them. All addresses are c/o Acceris Communications Inc. unless otherwise indicated.

(2) As to each person or entity named as beneficial owners, that person's or entity's percentage of ownership is determined based on the assumption that any options or convertible securities held by such person or entity which are exercisable or convertible within 60 days have been exercised or converted, as the case may be.

(3) Mr. Silber is the Chairman, Chief Executive Officer and a beneficial owner of approximately 4,631,361 shares in Counsel, which represents beneficial ownership of 9.5%. Mr. Silber was appointed Chief Executive Officer and Interim President of Acceris in December 2002 and served as such until November 2003 when the Board appointed Ms. Murumets to succeed Mr. Silber. Mr. Silber disclaims beneficial ownership of the shares of Acceris' common stock beneficially owned by Counsel.

(4) Ms. Murumets is Executive Vice President of Counsel and a beneficial owner of approximately 280,000 shares in Counsel, which represents beneficial ownership of less than 1%. At the December 6, 2002 meeting of the Board of Directors of Acceris, Ms. Murumets was appointed to the office of Executive Vice President of Acceris. At the February 12, 2003 meeting of the Board of Directors of Acceris, Ms. Murumets was appointed a director of Acceris. At the November 26, 2003 meeting of the Board of Directors of Acceris, Ms. Murumets was appointed President of Acceris. Ms. Murumets disclaims beneficial ownership of the shares of Acceris' common stock beneficially owned by Counsel.

(5) Represents shares of common stock issuable pursuant to options.

(6) Represents shares of common stock issuable pursuant to options. Does not include shares held of record by Four M International, Ltd., of which Mr. Toh is a director. Mr. Toh disclaims any beneficial ownership of such shares.

(7) Mr. Lomicka is a director of Counsel and a beneficial owner of approximately 46,700 shares in Counsel, which represents beneficial ownership of less than 1%. Mr. Lomicka disclaims beneficial ownerships of the shares of Acceris' common stock beneficially owned by Counsel.

(8) Mr. Weintraub is Senior Vice President and Secretary of Counsel and a beneficial owner of approximately 306,102 shares in Counsel, which represents beneficial ownership of less than 1%. At the December 6, 2002 meeting of the Board of Directors of Acceris, Mr. Weintraub was appointed to the office of Senior Vice President and Secretary of Acceris. At the November 26, 2003 meeting of the Stockholders of Acceris, Mr. Weintraub was elected director of Acceris. Mr. Weintraub disclaims beneficial ownership of the shares of Acceris' common stock beneficially owned by Counsel.

(9) Mr. Shimer is not an employee at April 5, 2004, however he is a member of the Board of Directors. He was previously a managing director of Counsel. He is a beneficial owner of approximately 819,011 shares in Counsel, which represents beneficial ownership of 1.7%.

(10) Mr. Wasserson is not an employee or director of Acceris as of April 5, 2004. He was previously a managing director of Counsel and currently is a beneficial owner of approximately 330,000 shares in Counsel, which represents beneficial ownership of less than 1%.

(11) Mr. Clifford is the Chief Financial Officer of Counsel. He is a beneficial owner of approximately 45,000 shares in Counsel, which represents beneficial ownership of less than 1%. At the December 6, 2002 meeting of the Board of Directors of Acceris, Mr. Clifford was appointed Vice President of Finance of Acceris. At the February 16, 2003 meeting of the Board of Directors of Acceris, Mr. Clifford was appointed Chief Financial Officer of Acceris. Mr. Clifford disclaims beneficial ownership of the shares of Acceris' common stock beneficially owned by Counsel.

(12) Does not include options to purchase 150,000 shares of common stock granted on December 20, 2003.

(13) Does not include options to purchase 30,000 shares of common stock granted on December 20, 2003.

(14) Mr. Vannoy is not an employee of Acceris at April 5, 2004, and does not beneficially own any shares of Acceris' common stock.

(15) Includes 3,098,303 shares of Acceris' common stock issued upon conversion of Series M and N redeemable preferred stock in March 2001 which were obtained from Winter Harbor LLC ("Winter Harbor") on March 7, 2001, based on information included in a Schedule 13D filed by Counsel on March 13, 2001 and amended by Counsel and filed with the SEC on May 2, 2001. Also includes 2,624,395 shares of Acceris' common stock issuable upon conversion of a convertible promissory note in the principal amount (and including accrued interest) of approximately $15,590,000 as of April 5, 2004, at the conversion price of $5.94 per share, under the terms of the Senior Convertible Loan and Security Agreement, dated March 1, 2001, as amended on May 8, 2001 (Loan Agreement). Also includes 871,724 shares of Acceris' common stock issued on April 17, 2001 to Counsel under the terms of the Agreement and Plan of Merger, dated April 17, 2001. Also includes 4,747,396 shares of Acceris' common stock issued in connection with the Amended Debt Restructuring conversion of a certain convertible promissory note on November 30, 2003. Also includes approximately 8,681,096 shares of Acceris' common stock issued in connection with the conversion of a certain convertible promissory note on November 30, 2003. Also includes 118,750 shares received from Winter Harbor which were previously held in escrow in accordance with the terms and provisions of a certain Securities Purchase Agreement by and between Counsel and Winter Harbor dated March 1, 2001, and released to Counsel in accordance with the terms and provisions of certain release agreement between Counsel and Winter Harbor dated August 29, 2003.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth, as of December 31, 2003 information with respect to equity compensation plans (including individual compensation arrangements) under which the Company's securities are authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders:			
2003 Stock Option and Appreciation Rights Plan	1,372,000	$ 3.00	628,000
1997 Recruitment Stock Option Plan	60,480	42.30	288,942
1995 Directors Stock Option and Appreciation Rights Plan	8,500	22.50	1,000
1995 Employee Stock Option and Appreciation Rights Plan	—	—	14,037
Director Stock Option Plan	233	47.50	—
Equity compensation plans not approved by security holders:			
Issuance of non-qualified options to employees and outside consultants (1)	366,667	70.99	—
Total (2)	1,807,880	$18.20	931,979

(1) For a description of the material terms of these options, see Note 18 to the Consolidated Financial Statements provided in Item 15 hereto.

(2) Does not include the Acceris Communications Inc. Platinum Agent Program (the "Agent Warrant Program"), which awards warrants to certain of the Company's agents based on performance criteria. This program did not commence until 2004, and as of the date of this filing, warrants to purchase approximately 225,000 shares of common stock have been issued under the Agent Warrant Program. Warrants to purchase up to 1,000,000 shares are available for issuance under the Agent Warrant Program.

Item 13. Certain Relationships and Related Transactions.

Transactions with Management and Others

See Item 11 hereof for descriptions of the terms of employment, consulting and other agreements between the Company and certain officers, directors and other related parties. Additionally, in June 2002, the Company made a relocation loan of $100,000 (non-interest bearing) to Mr. Hilton. The loan is due on the earlier of June 2007 or upon sale of his former residence. While the loan is outstanding, payments are required, equal to 20% of any incentive awards (after the first $50,000) paid to Mr. Hilton. As of December 31, 2003, no payments on the loan had been made.

Transactions with Counsel

(all amounts are in thousands, except share and per share amounts)

Initial Acquisition of Acceris and Senior Convertible Loan

On March 1, 2001, Acceris entered into a Senior Convertible Loan and Security Agreement, (the "Senior Loan Agreement") with Counsel. Pursuant to the terms and provisions of the Senior Loan Agreement, Counsel agreed to make periodic loans to Acceris in the aggregate principal amount not to exceed $10,000, which was subsequently increased to $12,000 through amendment on May 8, 2001. Advances against the Senior Loan Agreement were structured as a 3-year convertible note with interest at 9% per annum, compounded quarterly. Counsel initially could convert the loan into shares of common stock of Acceris at a conversion price of $11.20 per common share. The terms of the Senior Loan Agreement also provide that at any time after September 1, 2002, the outstanding debt including accrued interest will automatically be converted into common stock using the then current conversion rate, on the first date that is the twentieth consecutive trading day that the common stock has closed at a price per share that is equal to or greater than $20.00 per share. The Senior Loan Agreement also provides that the conversion price is in certain cases subject to adjustment and includes traditional anti-dilution protection for the lender and is subject to certain events of default, which may accelerate the repayment of principal plus accrued interest. Total proceeds available to the Company were $12,000, less debt issuance costs of $600, which are being amortized over three years. The Senior Loan Agreement has been amended several times and the maturity date of the loan plus accrued interest has been extended to June 30, 2005. As a result of the application of the anti-dilution provisions of the Senior Loan Agreement, the conversion price has been adjusted to $5.94 per common share. As of December 31, 2003, the total outstanding debt under the Note (including principal and accrued interest) was $15,145 which is convertible into approximately 2,574,198 shares of common stock.

In connection with the above Senior Loan Agreement, Acceris granted Counsel a security interest in all of Acceris' assets owned at the time of execution of the Senior Loan Agreement or subsequently acquired, including but not limited to Acceris' accounts receivable, intangibles, inventory, equipment, books and records, and negotiable instruments held by the Company (collectively, the "Collateral").

In addition to the foregoing agreements, Acceris and Counsel executed a Securities Support Agreement, dated March 1, 2001 (the "Support Agreement") for the purpose of providing certain representations and commitments by Acceris to Counsel, including demand registration rights for common stock issuable upon conversion of the related loan. Counsel relied on these representations and commitments in its decision to enter a separate agreement (the "Securities Purchase Agreement") with Winter Harbor and First Media L.P., a limited partnership and the parent company of Winter Harbor (collectively the "Winter Harbor Parties"), Counsel agreed to purchase from the Winter Harbor Parties all of their equity securities in Acceris, including shares of Class M and Class N preferred stock of Acceris, beneficially owned by the Winter Harbor Parties for aggregate consideration of $5,000 in cash.

On March 7, 2001, as part of the agreements discussed above, Counsel converted all of the Class M and N convertible preferred stock it obtained from Winter Harbor into 3,098,303 shares of Acceris' common stock. The Class N shares were converted at $25.00 per common share and Class M at $11.20 per common share, in accordance with their respective conversion rights. Pursuant to the Securities Purchase Agreement, certain shares of common stock owned by the Winter Harbor Parties were held in escrow pending resolution of certain events.

Under the Support Agreement of March 1, 2001, Acceris also agreed to engage appropriate advisors and proceed to take all steps necessary to merge Nexbell Communications, Inc. (a subsidiary of Counsel) into Acceris. The merger was completed on April 17, 2001 and Counsel received 871,724 shares of common stock in Acceris as consideration.

Assignment of Winter Harbor Common Stock and Debt Interests

Pursuant to the terms of a settlement between Counsel and the Winter Harbor Parties effective August 29, 2003, the Winter Harbor Parties relinquished their right to 118,750 shares of the common stock of Acceris to Counsel. These shares were released from escrow and delivered to Counsel.

The Winter Harbor Parties further assigned to Counsel all of their rights with respect to a note payable by Acceris of $1,999 drawn down pursuant to a Letter of Credit issued November 3, 1998 to secure certain obligations of Acceris together with any accrued interest thereon. The assigned amount together with accrued interest amounted to $2,577 on August 29, 2003. As a result of the settlement and assignment, Acceris entered into a new loan agreement with Counsel the terms of which provide that from August 29, 2003 the loan balance of $2,577 shall bear interest at 10% per annum compounded quarterly with the aggregate balance of principal and accrued interest payable on maturity of the loan on June 30, 2005. This loan agreement was subsequently amended and restated to increase the principal of the loan by a further $100 for funding provided by Counsel to enable Acceris to acquire a VoIP patent in December 2003 and to allow for the making of further periodic advances thereunder at Counsel's discretion. The loan amount has been further increased by $1,546 at December 31, 2003 representing operating advances from Counsel to Acceris in the period since the initial acquisition of the Acceris common stock by Counsel in March 2001. As of December 31, 2003, the total outstanding debt under the Note (including principal and accrued interest) was $4,311.

Loan and Security Agreement and Amended Debt Restructuring

On June 6, 2001, Acceris and Counsel entered into a Loan and Security Agreement (the "Loan Agreement"). Any funds advanced to Acceris between June 6, 2001 and April 15, 2002, (not to exceed $10,000) were governed by the Loan Agreement and due on June 6, 2002. The loan was secured by all of the assets of Acceris. As of December 31, 2001, advances under this loan agreement totaled $10,000. On June 27, 2002 the Loan Agreement was amended to an amount of $24,307, which included additional capital advances from Counsel to Acceris made from December 31, 2001 through June 6, 2002. The amended agreement also further provided for additional advances as needed to Acceris, which advances totaled $2,087 through December 31, 2002 and $650 through November 30, 2003.

On July 25, 2002 Acceris and Counsel entered into a Debt Restructuring Agreement ("Debt Restructuring Agreement") which was amended on October 15, 2002 pursuant to an Amended and Restated Debt Restructuring Agreement ("Amended Agreement"). The Amended Agreement included the following terms:

1. Principal ($24,307) and associated accrued interest ($2,284), as of October 15, 2002, under the Loan Agreement, as amended, would be exchanged for common stock of Acceris at $3.77 per share (representing the average closing price of Acceris' common stock during May 2002).

2. Funding provided by Counsel pursuant to the Loan Agreement, as amended, ($2,087) and associated accrued interest ($1,996) from October 15, 2002 to December 31, 2002, would be exchanged for common stock of Acceris at $3.77 per share (representing the average closing price of Acceris' common stock during May 2002).

3. Counsel would, (a) fund the operations of Acceris through June 30, 2005 and the operating cash flow deficit, if any, (b) advance to Acceris all amounts paid or payable by Acceris to its stockholders that exercised their dissenters' rights in connection with the transactions subject to the debt restructuring transactions and (c) advance the amount of the annual premium to renew the existing directors and officers' insurance coverage through November 2003.

4. Counsel would reimburse Acceris for all costs, fees and expenses, in connection with the Debt Restructuring Agreement and the Amended Agreement and transactions contemplated thereby including all expenses incurred and yet to be incurred, including the Special Committee's costs to negotiate these agreements and costs related to obtaining stockholder approval. During 2003 and 2002, Counsel reimbursed Acceris $132 and $499, respectively, for certain reimbursable expenses, which have been recorded as additional paid-in capital.

5. The issuance of common stock by Acceris pursuant to this Agreement would result in a weighted average conversion price adjustment pursuant to the provisions of the March 1, 2002 Loan Agreement. Whereas the conversion price for the March 1, 2002 Loan Agreement had initially been $11.20, the new conversion price would be adjusted as a result of the anti-dilution provisions of the Senior Loan Agreement. At December 31, 2003, the new conversion price is $5.94 per common share.

Effective November 30, 2003, 8,681,096 shares of common stock were issued to Counsel in settlement of the underlying debt and accrued interest totaling $32,721 on the date of the conversion.

Convertible Promissory Note to Fund RSL Acquisition

In connection with the acquisition of certain assets of RSL in December 2002, Acceris issued a $7,500 convertible note payable ("the Convertible Note") to Counsel, bearing interest at 10% per annum compounded quarterly which, as amended, matured on June 30, 2005. The Convertible Note was convertible into common stock of Acceris at a conversion rate of $1.68 per share. Effective November 30, 2003 Counsel exercised its right to convert the Convertible Note plus accrued interest to that date totaling $7,952 into common stock of Acceris. This resulted in the issuance of 4,747,396 shares of Acceris common stock.

Collateralized Promissory Note and Loan Agreement

During the third quarter of 2003, Counsel advanced the sum of $5,600 to Acceris evidenced by a promissory note effective October 1, 2003. In January 2004 Acceris and Counsel entered into a loan agreement and an amended and restated promissory note pursuant to which an additional $2,000 was loaned to Acceris and pursuant to which additional periodic loans may be made from time to time (collectively and as amended, the "Promissory Note"). The Promissory Note matures on June 30, 2005 and accrues interest at 10% per annum compounded quarterly from the date funds are advanced. The Promissory Note is collateralized by certain shares of Series B Convertible Preferred Stock (the "Preferred Stock") of Buyers United, Inc. (a third party), which are held by Acceris. In the event of the sale of the Preferred Stock (or the common stock to which the Preferred Stock is convertible) by Acceris or an equity investment or investments in Acceris by a third party through the capital markets and subject to certain limitations, the maturity date of the Promissory Note will accelerate to the date 10 calendar days following either such event. As of the date of this filing, subsequent to year end, Counsel has provided an aggregate of $4,050 of funds in 2004 pursuant to this loan agreement. There are no conversion features associated with the Promissory Note.

Secured Loan to Acceris

To fund the acquisition of the WorldxChange assets purchased and liabilities assumed by Acceris, on June 4, 2001 Counsel provided a loan (the "Initial Loan") to Acceris in the aggregate amount of $15,000. The loan was subordinated to a revolving credit facility with Foothill Capital Corporation ("Foothill"), was collateralized by all assets of the Company and matures on June 30, 2005. On October 1, 2003 Counsel assigned the balance owed in connection with the Initial Loan of $9,743 including accrued interest ("the Assigned Loan") to Acceris in exchange for a new loan bearing interest at 10% per annum compounded quarterly maturing on June 30, 2005 ("the New Loan"). Consistent with the terms of the Initial Loan, subject to certain conditions, the New Loan provides for certain mandatory prepayments upon written notice from Counsel including an event resulting in the issuance of new shares by Acceris to a party unrelated to Counsel where the funds are not used for an approved expanded business plan or where Acceris has sold material assets in excess of cash proceeds of $1,000. Pursuant to a Stock Pledge Agreement as amended, the New Loan is secured by the common stock held by Acceris in its subsidiary subject to the priority security interests of Foothill, the Company's asset-based lender. There are no conversion features associated with the New Loan.

Counsel Keep Well

As a result of Counsel's purchase of Winter Harbor's security holdings in Acceris, Counsel became the single largest stockholder of the Company. In addition to the above transactions, Counsel has committed to fund, through long-term inter company advances or equity contribution, all capital investment, working capital or other operational cash requirements of Acceris through June 30, 2005 (the "Keep Well"). Any default and loan repayment accelerator provisions with respect to the above loan agreements are subject to funding by Counsel pursuant to the terms of the Keep Well.

Counsel Management Services

In addition to Mr. Silber's services (described in Item 11 entitled, "Executive Compensation"), Counsel provides other management services to Acceris through time spent by Counsel executives serving roles at Acceris. Accordingly, Acceris has valued the services of these other employees at approximately $130 for the year ending December 31, 2003. The expense has been reflected in SG&A, offset by an increase to additional paid-in capital. Acceris anticipates these services to continue in 2004.

Item 14. Principal Accountant Fees and Services.

Fees paid to PriceWaterhouseCoopers LLP, our independent auditors for each of the past two years are set forth below. All fees paid to our independent auditor were pre approved by the Audit Committee.

	Year Ended December 31, (in thousands)	
	2002	2003
Audit fees	$530	$ 767
Audit-related fees	342	176
Tax fees	91	182
All other fees	—	—
Total	$963	$1,125

Audit Fees

Audit fees were for professional services rendered for the audit of our annual financial statements for the years ended December 31, 2002 and 2003, the reviews of the financial statements included in our quarterly reports on Form 10-Q for the years ended December 31, 2002 and 2003 and services in connection with our statutory and regulatory filings for the years ended December 31, 2002 and 2003 and amounted to $530 and $767 for 2002 and 2003, respectively.

Audit-Related Fees

Audit related fees were for assurance and related services rendered that are reasonably related to the audit and reviews of our financial statements for the years ended December 31, 2002 and 2003, exclusive of the fees disclosed as Audit Fees above. These fees include benefit plan audits, accounting consultations and audits in connection with acquisitions, which amounted to $342 and $176 for 2002 and 2003, respectively.

Tax Fees

Tax fees were for services related to tax compliance, consulting and planning services rendered during the years ended December 31, 2002 and 2003 and included preparation of tax returns, review of restrictions on net operating loss carryforwards and other general tax services. Tax fees paid amounted to $91 and $182 for 2002 and 2003, respectively.

All Other Fees

We did not incur fees for any services, other than the fees disclosed above relating to audit, audit-related and tax services, rendered during the years ended December 31, 2002 and 2003.

Audit and Non-Audit Service Pre-Approval Policy

In accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder, the Audit Committee has adopted an informal approval policy that it believes will result in an effective and efficient procedure to pre-approve services performed by the independent auditor.

Audit Services. Audit services include the annual financial statement audit (including quarterly reviews) and other procedures required to be performed by the independent auditor to be able to form an opinion on our financial statements. The Audit Committee may pre-approve specified annual audit services engagement terms and fees and other specified audit fees. All other audit services must be specifically pre-approved by the Audit Committee. The Audit Committee monitors the audit services engagement and may approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope or other items.

Audit-Related Services. Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of our financial statements which historically have been provided to us by the independent auditor and are consistent with the SEC's rules on auditor independence. The Audit Committee may pre-approve specified audit-related services within pre-approved fee levels. All other audit-related services must be pre-approved by the Audit Committee.

Tax Services. The Audit Committee may pre-approve specified tax services that the Audit Committee believes would not impair the independence of the auditor and that are consistent with SEC rules and guidance. All other tax services must be specifically approved by the Audit Committee.

All Other Services. Other services are services provided by the independent auditor that do not fall within the established audit, audit-related and tax services categories. The Audit Committee may pre-approve specified other services that do not fall within any of the specified prohibited categories of services.

Procedures. All requests for services to be provided by the independent auditor, which must include a detailed description of the services to be rendered and the amount of corresponding fees, are submitted to the Chief Financial Officer. The Chief Financial Officer authorizes services that have been pre-approved by the Audit Committee. If there is any question as to whether a proposed service fits within a pre-approved service, the Audit Committee chair is consulted for a determination. The Chief Financial Officer submits requests or applications to provide services that have not been pre-approved by the Audit Committee, which must include an affirmation by the Chief Financial Officer and the independent auditor that the request or application is consistent with the SEC's rules on auditor independence, to the Audit Committee (or its chair or any of its other members pursuant to delegated authority) for approval.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The following financial statements and those financial statement schedules required by Item 8 hereof are filed as part of this report:

1. Financial Statements:

   Report of Independent Auditors
   Consolidated Balance Sheets as of December 31, 2003 and 2002
   Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001
   Consolidated Statement of Changes in Stockholders' Deficit for the years ended December 31, 2003, 2002 and 2001
   Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001
   Notes to Consolidated Financial Statements

2. Financial Statement Schedule:

   Schedule II – Valuation and Qualifying Accounts

   All other schedules are omitted because of the absence of conditions under which they are required or because the required information is presented in the Financial Statements or Notes thereto.

(b) Reports on Form 8-K during the fourth quarter of 2003.

None.

(c) The following exhibits are filed as part of this Annual Report:

Number	Title of Exhibit
3.1(i)	Amended and Restated Articles of Incorporation (6).
4.2	Securities Purchase Agreement by and between Acceris and Winter Harbor, LLC dated as of September 30, 1997 (3).
4.3	Amended and Restated Registration Rights Agreement by and between Acceris and Winter Harbor, LLC dated as of January 15, 1999, amending Registration Rights Agreement dated October 10, 1997 (7).
4.4	Form of Stockholders Agreement by and among Acceris, Winter Harbor, LLC and certain holders of Acceris' securities (Exhibit D to the Purchase Agreement) (3).
4.5	Form of Warrant Agreement by and between MedCross, Inc. and Winter Harbor, LLC (Exhibit F to the Purchase Agreement) (3).
4.6	Senior Convertible Loan and Security Agreement by and between Acceris and Counsel Communications LLC, dated March 1, 2001 (10).
4.7	Loan Note by and between Counsel Communications LLC and Acceris dated as of March 1, 2001 (10).
4.8	Security Agreement by and between Acceris, MiBridge Inc and Counsel Communications, LLC., dated March 1, 2001 (10).
10.1*	1997 Recruitment Stock Option Plan (1).
10.2*	2001 Stock Option and Appreciation Rights Plan (2).
10.2.1*	2003 Stock Option and Appreciation Rights Plan (15).
10.3	Agreement by and between Acceris and Winter Harbor, LLC, dated April 14, 1998 (5).
10.4	Pledge Agreement by and between Acceris and Winter Harbor, LLC, dated April 14, 1998 (5).
10.5	Security Agreement by and among certain of Acceris' subsidiaries and Winter Harbor, LLC, dated April 14, 1998 (5).
10.6	Form of Promissory Notes issued to Winter Harbor, LLC (5).
10.7	Warrant to purchase 250,000 shares of Acceris' common stock issued to JNC, dated June 30, 1998 (5).
10.8	Warrant to purchase 100,000 shares of Acceris' common stock issued to JNC, dated July 28, 1998 (5).

Number	Title of Exhibit
10.9	Loan Agreement by and between Acceris and Winter Harbor, LLC, dated as of January 15, 1999 (7).
10.10	First Amendment to Loan Agreement by and between Acceris and Winter Harbor, LLC, dated March 4, 1999 (7).
10.11	Promissory Note in principal amount of $8,000,000 executed by Acceris in favor of Winter Harbor, LLC, dated November 10, 1998 (7).
10.12	Series K Warrant Agreement by and between Acceris and Winter Harbor, LLC and form of Series K Warrant, dated as of January 15, 1999 (7).
10.13	Agreement by and between Acceris and Winter Harbor, LLC, dated as of January 15, 1999 (7).
10.14	First Amendment to Security Agreement dated as of January 15, 1999, by and among Acceris, five of its wholly-owned subsidiaries and Winter Harbor, LLC, amending Security Agreement dated April 14, 1997 (7).
10.15	First Amendment to Pledge Agreement dated as of January 15, 1999, by and among Acceris and Winter Harbor, LLC, amending Pledge Agreement dated April 14, 1997 (7).
10.16	Series D, E, F, G, H, I and J Warrant Agreement dated as of January 15, 1999 by and between Acceris and Winter Harbor, LLC, and related forms of warrant certificates (7).
10.17	Amended and Restated Employment Agreement with Helen Seltzer, dated January 3, 2002 (4).
10.18	Form of Wholesale Service Provider and Distribution Agreement between Acceris and Big Planet, Inc., dated February 1, 2000 (8).
10.19	Form of Cooperation and Framework Agreement between Acceris and CyberOffice International AG, dated May 8, 2000 (9).
10.20	Form of Revenue Sharing Agreement between Acceris and Red Cube International AG (formerly known as CyberOffice International AG.) dated June 30, 2000 (9).
10.21	Form of Letter dated June 30, 2000, clarifying a Cooperation and Framework Agreement issue (9).
10.22	Loan and Security Agreement by and among WorldxChange Corp. and Foothill Capital Corporation, dated December 10, 2001 (11).
10.23*	Employment agreement with James Ducay, dated January 1, 2004 (14).
10.24*	Employment agreement with Kenneth Hilton, dated May 1, 2002 (13).
10.25	Form of Asset Purchase Agreement by and between Counsel Springwell Communications LLC and RSL COM U.S.A. Inc. (12).
10.26	Form of Amendment No. 1 to Asset Purchase Agreement between Counsel Springwell Communications LLC and RSL U.S.A., Inc. (12).
10.27	Amended and Restated Debt Restructuring Agreement, dated October 15, 2002 (13).
10.28	Form of Asset Purchase Agreement between Buyer's United Inc., I-Link Communications Inc., and Acceris, dated December 6, 2002 (13).
10.29	Acceris Convertible Promissory Note for $7,500,000 between Acceris and Counsel Corporation (US) dated December 10, 2002 (13).
10.30	Warrant Exchange Agreement by and between Winter Harbor, LLC and Acceris dated as of March 1, 2001 (10).
10.31	Securities Support Agreement by and between Counsel Communications, LLC and Acceris dated as of March 1, 2001 (10).
10.32	Promissory note dated as of August 29, 2003, for $2,577,070 issued to Counsel Corporation. (14)
10.33	Promissory note dated March 10, 2004 for $1,546,532 issued to Counsel Corporation (US). (14)
10.34	Loan Agreement dated as of January 26, 2004 between Acceris and Counsel Corporation. (14)

10.35 Loan Agreement dated as of October 1, 2003, between Acceris and Counsel Corporation (US). (14)

10.36 Amended and Restated Stock Pledge Agreement dated as of January 30, 2004 between Acceris and Counsel Corporation (US). (14)

10.37 Amended and Restated Secured Promissory Note dated as of October 1, 2003, for $9,743,479 issued to Counsel Corporation (US). (14)

10.38 Amended and Restated Promissory Note dated January 26, 2004 for $7,600,000 issued to Counsel Corporation. (14)

10.39 Amended and Restated Loan Agreement dated as of January 30, 2004 between Acceris and Counsel Corporation (US). (14)

10.40 Third Amendment to Senior Convertible Loan and Security Agreement dated as of November 1, 2003 between Acceris and Counsel Corporation. (14)

14 Acceris Communications Inc. Code of Conduct (14).

21 List of subsidiaries (14).

23.1 Consent of Independent auditors (14).

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

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

32.1 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (14).

32.2 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (14).

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* Indicates a management contract or compensatory plan required to be filed as an exhibit.

(1) Incorporated by reference to our Annual Report on Form 10-KSB for the year ended December 31, 1996, file number 0-17973.

(2) Incorporated by reference to our Quarterly Report on Form 10-Q for the period ended September 30, 2001, file number 0-17973.

(3) Incorporated by reference to our Current Report on Form 8-K, dated September 30, 1997, file number 0-17973.

(4) Incorporated by reference to our Quarterly Report on Form 10-Q for the period ended March 31, 2002, file number 0-17973.

(5) Incorporated by reference to our Quarterly Report on Form 10-Q for the period ended June 30, 1998, file number 0-17973.

(6) Incorporated by reference to our Annual report on Form 10-K for the year ended December 31, 1998, file number 0-17973.

(7) Incorporated by reference to our Current Report on Form 8-K filed on March 23, 1999, file number 0-17973.

(8) Incorporated by reference to our Quarterly Report on Form 10-Q for the period ended March 31, 2000, file number 0-17973.

(9) Incorporated by reference to our Quarterly Report on Form 10-Q for the period ended June 30, 2000, file number 0-17973.

(10) Incorporated by reference to our Current Report on Form 8-K filed on March 16, 2001, file number 0-17973.

(11) Incorporated by reference to our Annual report on Form 10-K for the year ended December 31, 2001, file number 0-17973.

(12) Incorporated by reference to our Current Report on Form 8-K filed on December 26, 2002, 2001, file number 0-17973.

(13) Incorporated by reference to our Annual report on Form 10-K for the year ended December 31, 2002, file number 0-17973.

(14) Filed herewith.

(15) Incorporate by reference to our Definitive Proxy Statement (DEF14A) for the November 26, 2003 annual stockholder meeting.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on our behalf by the undersigned, hereunto duly authorized.

ACCERIS COMMUNICATIONS INC.
(Registrant)

Dated: April 12, 2004

By: /s/ Allan C. Silber
Allan C. Silber, Chairman of the Board of Directors and Chief Executive Officer

In accordance with Section 13 of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Allan C. Silber Allan C. Silber	Chairman of the Board of Directors and Chief Executive Officer	April 12, 2004
/s/ Gary M. Clifford Gary M. Clifford	Chief Financial Officer and VP of Finance	April 12, 2004
/s/ Kelly D. Murumets Kelly Murumets	Director and President	April 12, 2004
/s/ Stephen A. Weintraub Stephen A. Weintraub	Director and Senior Vice President and Secretary	April 12, 2004
/s/ Hal B. Heaton Hal B. Heaton	Director	April 12, 2004
/s/ William H. Lomicka William H. Lomicka	Director	April 12, 2004
/s/ Henry Y. L. Toh Henry Y.L. Toh	Director	April 12, 2004
/s/ Samuel L. Shimer Samuel L. Shimer	Director	April 12, 2004

INDEX OF FINANCIAL STATEMENTS & SUPPLEMENTAL SCHEDULE

Title of Document

Report of Independent Auditors

To the Board of Directors and Stockholders
of Acceris Communications Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Acceris Communications Inc. and its subsidiaries at December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and has a stockholders' deficit. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PricewaterhouseCoopers LLP
San Diego, California
April 14, 2004

ACCERIS COMMUNICATIONS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
as of December 31, 2003 and 2002
(in thousands, except share amounts)

	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,033	$ 3,620
Accounts receivable, less allowance for doubtful accounts of $1,764 and $1,704 as of December 31, 2003 and 2002, respectively	18,018	16,924
Investments in convertible preferred and common stock	2,058	—
Other current assets	2,111	3,064
Net assets of discontinued operations	91	—
Total current assets	24,311	23,608
Furniture, fixtures, equipment and software, net	8,483	11,479
Other assets:		
Intangible assets, net	3,297	2,574
Goodwill	1,120	173
Investments	1,100	—
Net assets of discontinued operations	—	1,350
Other assets	743	2,262
Total assets	$ 39,054	$ 41,446
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	$ 28,272	$ 25,107
Unearned revenue	5,678	958
Revolving credit facility	12,127	9,086
Current portion of notes payable	1,254	2,987
Current portion of obligations under capital leases	2,715	2,714
Net liabilities of discontinued operations	841	—
Total current liabilities	50,887	40,852
Notes payable, less current portion	772	1,033
Obligations under capital leases, less current portion	1,631	4,146
Notes payable to a related party	35,073	59,340
Total liabilities	88,363	105,371
Commitments and contingencies (Notes 12 and 16)		
Stockholders' deficit:		
Preferred stock, $10.00 par value, authorized 10,000,000 shares, issued and outstanding 619 and 769 as of December 31, 2003 and 2002, respectively; liquidation preference of $613 and $761 at December 31, 2003 and 2002, respectively	6	7
Common stock, $0.01 par value, authorized 300,000,000 shares, issued and outstanding 19,262,095 and 5,827,477 at December 31, 2003 and 2002, respectively	192	58
Additional paid-in capital	171,115	130,311
Accumulated deficit	(220,622)	(194,301)
Total stockholders' deficit	(49,309)	(63,925)
Total liabilities and stockholders' deficit	$ 39,054	$ 41,446

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

ACCERIS COMMUNICATIONS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended December 31, 2003, 2002 and 2001
(in thousands)

	2003	2002	2001
Revenues:			
Telecommunications services	$133,765	$ 85,252	$ 50,289
Technology licensing and development	2,164	2,837	5,697
Total revenues	135,929	88,089	55,986
Operating costs and expenses:			
Telecommunications network expense (exclusive of depreciation shown below)	86,006	50,936	35,546
Selling, general, administrative and other	57,264	33,015	30,790
Provision for doubtful accounts	5,438	5,999	2,861
Research and development	—	1,399	2,332
Depreciation and amortization	7,125	4,270	6,409
Total operating costs and expenses	155,833	95,619	77,938
Operating loss	(19,904)	(7,530)	(21,952)
Other income (expense):			
Interest expense	(8,162)	(7,894)	(4,693)
Interest and other income	1,216	395	81
Gain on sale of subsidiary	—	—	589
Total other expense	(6,946)	(7,499)	(4,023)
Loss from continuing operations	(26,850)	(15,029)	(25,975)
Gain (loss) from discontinued operations (net of $0 tax):	529	(12,508)	(18,522)
Net loss	$ (26,321)	$(27,537)	$(44,497)

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

ACCERIS COMMUNICATIONS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS, continued
for the years ended December 31, 2003, 2002 and 2001
(in thousands)

(in thousands, except per share amounts)	2003	2002	2001
Calculation of net loss per common share:			
Loss from continuing operations	$(26,850)	$(15,029)	$(25,975)
Cumulative preferred stock dividends not paid in current year	—	—	(27)
Dividends accrued and paid on Class M redeemable preferred stock.	—	—	(269)
Net effect on retained earnings of redemption and reissuance of Class M and N preferred stock, including beneficial conversion features	—	—	15,512
Loss from continuing operations applicable to common stockholders	$(26,850)	$(15,029)	$(10,759)
Basic and diluted weighted average shares outstanding	7,011	5,828	4,959
Net loss per common share – basic and diluted:			
Loss from continuing operations	$ (3.83)	$ (2.58)	$ (2.17)
Gain (loss) from discontinued operations	0.08	(2.15)	(3.73)
Net loss per common share	$ (3.75)	$ (4.73)	$ (5.90)

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

ACCERIS COMMUNICATIONS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
for the years ended December 31, 2003, 2002 and 2001
(in thousands, except share amounts)(1)

	Preferred stock		Common stock			
	Shares	Amount	Shares	Amount	Additional paid-in capital	Accumulated deficit
Balance at December 31, 2000	24,435	$ 244	1,406,825	$ 14	$106,805	$(135,902)
Conversion of convertible debt and accrued interest into Class M mezzanine preferred stock and common warrants	—	—	—	—	6,378	—
Common stock issued and accumulated deficit acquired as a result of WebToTel acquisition and conversion of notes payable	—	—	872,717	9	11,935	(1,246)
Stock issued - employee stock purchase plan	—	—	1,726	—	15	
Repurchase of Class N preferred stock	(14,404)	(144)	—	—	(14,164)	—
Net contribution from repurchase / settlement with stockholders of Class M and N preferred stock	—	—	—	—	(5,000)	30,292
Contingent beneficial conversion feature on Class N preferred stock	—	—	—	—	9,780	(9,780)
Issuance of common shares to related party to repurchase warrants outstanding	—	—	250,000	2	(2)	—
Reussuance and conversion of Class M redeemable preferred stock into common stock	—	—	2,522,142	25	4,025	—
Reussuance and conversion of Class N preferred stock into common stock	—	—	576,158	6	944	—
Beneficial conversion feature on the reissuance of Class M and N preferred stock	—	—	—	—	5,000	(5,000)
Other conversions of Class N preferred stock into common stock	(13)	(1)	457	—	—	—
Warrants issued in connection with notes payable to related party	—	—	—	—	2,170	—
Beneficial conversion feature on certain convertible note payable to related party	—	—	—	—	1,092	—
Conversion of Class C preferred stock into common stock	(9,249)	(92)	170,751	2	91	—
Dividend on Class C preferred stock paid in the form of common stock	—	—	26,701	—	631	(631)
Net loss	—	—	—	—	—	(44,497)
Balance at December 31, 2001	769	7	5,827,477	58	129,700	(166,764)
Beneficial conversion feature on certain convertible notes payable to related party	—	—	—	—	112	—
Acceris costs paid by majority stockholder	—	—	—	—	499	—
Net loss	—	—	—	—	—	(27,537)
Balance at December 31, 2002	769	7	5,827,477	58	130,311	(194,301)
Conversion of related party debt to common stock	—	—	13,428,618	134	40,539	—
Conversion of Class C preferred stock to common stock	(150)	(1)	6,000	—	1	—
Acceris costs paid by majority stockholder	—	—	—	—	132	—
Management expense from majority stockholder	—	—	—	—	130	—
Issuance of options to purchase common stock to non-employee	—	—	—	—	2	—
Net loss	—	—	—	—	—	(26,321)
Balance at December 31, 2003	619	$ 6	19,262,095	$192	$171,115	$(220,622)

(1) All amounts shown as if the reverse stock split described more fully in Note 5 below had occurred on January 1, 2001.

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

ACCERIS COMMUNICATIONS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2003, 2002 and 2001
(in thousands)

	2003	2002	2001
Cash flows from operating activities:			
Net loss	$(26,321)	$(27,537)	$(44,497)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	7,125	8,135	10,167
Provision for doubtful accounts	5,438	6,110	4,067
Decrease in allowance for impairment of net assets of discontinued operations	(169)	—	—
Impairment of long-lived assets	—	3,609	8,040
Amortization of discount and debt issuance costs on notes payable and capital leases	945	1,464	1,518
Stock received on sale of technology license	(1,100)	—	—
Accrued interest added to loan principal	5,667	3,651	1,267
Expense associated with stock options issued to non-employee for services	2	—	—
Loss on disposal of assets	—	266	—
Gain on settlement of note payable	(1,141)	—	(1,093)
Management expense to controlling shareholder	130	—	—
Gain on sale of subsidiary	—	—	(589)
Increase (decrease) from changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(5,944)	(1,269)	(4,528)
Other assets	(1,003)	(1,164)	(1,127)
Net assets and liabilities of discontinued operations	750	—	—
Accounts payable, accrued liabilities and interest payable	2,586	3,507	12,058
Unearned revenue	4,720	(1,643)	(14,566)
Net cash used in operating activities	(8,315)	(4,871)	(29,283)
Cash flows from investing activities:			
Purchases of furniture, fixtures, equipment and software	(2,036)	(1,649)	(1,963)
Purchase of patent	(100)	—	—
Business acquisitions, net of acquisition costs and cash acquired	149	(8,276)	(13,447)
Cash received from sale of assets	160	692	—
Net cash used in investing activities	(1,827)	(9,233)	(15,410)
Cash flows from financing activities:			
Proceeds from issuance of notes payable to a related party	7,896	16,823	43,920
Payment of notes payable to related party	—	(3,000)	(2,500)
Proceeds from revolving credit facility, net	3,041	2,089	6,996
Payment of capital lease obligations	(2,514)	(2,544)	(1,052)
Acceris costs paid by majority stockholder	132	498	—
Payment of long-term debt	—	(805)	(180)
Proceeds from exercise of stock options and warrants and issuances under stock purchase plan	—	—	16
Net cash provided by financing activities	8,555	13,061	47,200
Increase (decrease) in cash and cash equivalents	(1,587)	(1,043)	2,507
Cash and cash equivalents at beginning of year	3,620	4,663	2,156
Cash and cash equivalents at end of year	$ 2,033	$ 3,620	$ 4,663

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

ACCERIS COMMUNICATIONS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
for the years ended December 31, 2003, 2002 and 2001
(in thousands)

	2003	2002	2001
Supplemental schedule of non-cash investing and financing activities:			
RSL acquisition costs financed through note payable to seller	—	$ 875	—
Warrants issued in connection with notes payable to related party	—	—	$ 2,170
Conversion of notes payable to a related party and associated accrued interest to Class M redeemable preferred stock	—	—	10,305
Reclassification of Class M redeemable preferred stock from Mezzanine	—	—	22,040
Conversion of notes payable to a related party and associated accrued interest to common stock	$40,673	—	10,327
Preferred stock received in exchange for assets of discontinued operations	1,691	—	—
Assets included in the purchase price of Transpoint acquisition, net	2,882	—	—
Stock options issued for services	142	—	—
Notes payable incurred for the purchase of software and software licenses	921	—	—
Equipment acquired under capital lease obligations and note payable	—	—	9,888
Supplemental cash flow information:			
Taxes paid	—	—	—
Interest paid	$ 787	$2,164	$ 1,270

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

Note 1 – Description of Business and Principles of Consolidation

The consolidated financial statements include the accounts of Acceris Communications Inc. (formerly I-Link Incorporated) and its wholly-owned subsidiaries WorldxChange Communications Corp. ("WorldxChange"), I-Link Communications Inc., ("ILC"), which is included in discontinued operations; the Enterprise and Agent business of RSL COM USA Inc., ("RSL"), which the Company purchased in December, 2002 and Transpoint Communications, LLC ("Transpoint"), which the Company purchased in July 2003 (see Note 9). These entities combined are referred to as "Acceris" or the "Company" in these consolidated financial statements.

For the past six years, Acceris has developed and marketed enhanced communications products and services utilizing its own private intranet and both owned and leased network switching and transmission facilities. The communications products and services are delivered through Acceris' proprietary technologies. Enhanced communications products and services were marketed through master agent and other wholesale distributor arrangements with licensed long-distance carriers. The Company developed and licensed communications applications products and software that support multimedia communications (voice, fax and audio) over the public switched network, local area networks and the Internet.

In June 2001, Acceris, through it subsidiary WorldxChange, purchased certain assets and assumed certain liabilities of WorldxChange Communications, Inc. from a bankruptcy proceeding. WorldxChange was a facilities-based telecommunications carrier that provided international and domestic long-distance service to retail customers. Telecommunications services provided by WorldXChange consisted primarily of a dial-around product, which allowed a customer to make a call from any phone by dialing a 10-10-XXX prefix. Since the acquisition, the Company has 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). WorldxChange has also begun to offer local communications products to its residential and small business customers. The service will be provided under the terms of the Unbundled Network Element Platform ("UNE-P") authorized by the Telecommunications Act of 1996 and will be available in New York and New Jersey initially, expanding to other markets throughout the United States.

In December 2002, Acceris, through its subsidiary WorldxChange, completed the purchase of certain assets of RSL (see Note 9). The acquisition included the assets used by RSL to provide long-distance voice and data services, including frame relay, to small and medium size businesses ("Enterprise" business), and the assets used to provide long-distance and other voice services to small businesses and the consumer/residential market ("Agent" business).

In May 2003, Acceris completed the sale of its domestic Voice-over-Internet-Protocol ("VoIP") network business, which represented the core business of its subsidiary ILC along with a fully paid license to use its patented technology, to Buyers United, Inc. ("BUI"). This allowed the Company to focus on the licensing of its technology and the pursuit of a patent enforcement strategy.

In December 2003, Acceris acquired US Patent No. 6,243,373. The acquisition of this patent combined with the Company's US Patent No. 6,438,124 form the foundational patents for VoIP communication.

In July 2003, Acceris, through its subsidiary WorldxChange, completed the purchase of all the outstanding shares of Transpoint (see Note 9). The acquisition allowed the Company to increase its penetration in the commercial agent channel.

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

Note – 2 Liquidity and Capital Resources

The Company has incurred substantial operating losses and negative cash flows from operations since inception and had a stockholders' deficit of $49,309 and negative working capital of $26,576 at December 31, 2003. The Company continued to finance its operations during 2003 through related party debt with an outstanding balance of $35,073 and a revolving credit facility with an outstanding balance of $12,127 as of December 31, 2003.

At December 31, 2003, the Company has debt of $35,073 owed to its controlling stockholder, Counsel Corporation (collectively with all of its subsidiaries, "Counsel"), which matures on June 30, 2005 (subject to certain contingent acceleration clauses). This debt is supplemented by an agreement from Counsel to fund through long-term inter-company advances or equity contributions, all capital investment, working capital or other operational cash requirements of the Company (the "Keep Well"). During 2003, Counsel advanced the Company approximately $7,896 under its Keep Well and converted accrued interest of $5,070 into principal.

During 2003, Counsel acquired a debt which the Company owed to Winter Harbor LLC ("Winter Harbor") of $1,999 and converted $40,673 of its convertible debt into common stock of the Company. These events significantly reduced the Company's liabilities.

The majority of the Company's debt matures on June 30, 2005. This includes amounts due on its three-year asset-based credit facility, under which it owed $12,127 at December 31, 2003 and $35,073 owed to Counsel (plus additional interest accrued prior to June 2005).

In 2004, management intends to raise capital to support the growth strategy of the business. Use of funds from such offering(s) will be detailed at the time and may include such uses as to fund operations, improve working capital, repay obligations of the business and to fund future acquisition activities. There can be no assurance that the Company's capital raising efforts will be successful.

There is 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 acceptable terms, or obtain an extension of the existing funding commitment from Counsel or its asset-based lender beyond June 30, 2005, should it be required. If the Company is unable to accomplish the above, it may need to evaluate opportunities to sell assets or obtain alternative financing with terms that are not favorable to the Company. These matters raise substantial doubt about the Company's ability to continue as a going concern. The accompanying 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 3 – Amendment of Form 10-K for the Year Ended December 31, 2002

The accompanying consolidated financial statements as of December 31, 2002 and for the year then ended were restated on the Company's Annual Report on Form 10-K/A #2, filed with the Securities and Exchange Commission on October 15, 2003 from those previously issued to account for revenues from the Company's network service offering when the actual cash collections to be retained by the Company are finalized. The restatement had no effect on loss from discontinued operations or net loss per share from discontinued operations. The restatement increased the net loss for the year ended December 31, 2002 by $3,505, or $0.60 per share.

Note 4 – Summary of Significant Accounting Policies

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the Company's price to the customer is fixed and determinable, and collection of the resulting receivable is reasonably assured. Revenue is derived from telecommunications usage based on minutes of use. Revenue derived from usage is recognized as services are provided, based on agreed upon usage rates. Revenue is recorded net of estimated customer credits and billing errors, which are recorded at the same time the corresponding revenue is recognized. Revenues from billings for services rendered where collectibility is not assured are recognized when the final cash collections to be retained by the Company are finalized.

Revenues for the Company's network service offering, which it began to sell in November 2002 and subsequently ceased selling in July 2003, are accounted for using the unencumbered cash 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 Local Exchange Carriers ("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 is no further billing of customers for the network service offering subsequent to the program's termination. At December 31, 2003, the Company had approximately $4,621 in cash receipts that were still subject to adjustment by the LECs and therefore encumbered. This amount is included in deferred revenue at December 31, 2003. The Company expects that a portion of these amounts will become unencumbered during 2004, and will record revenues at such time that the Company finalizes cash collection amounts with the LECs.

Revenue from the sale of software licenses is recognized when a non-cancelable agreement is in force, the license fee is fixed or determinable, acceptance has occurred, and collectibility is reasonably assured. Maintenance and support revenues are recognized ratably over the term of the related agreements. When a license of Acceris technology requires continued support or involvement of Acceris, contract revenues are spread over the period of the required support or involvement. In the event that collectibility is in question, revenue (deferred or recognized) is recorded only to the extent of cash receipts.

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.

Significant estimates include revenue recognition (see above), accruals for telecommunications network cost, the allowance for doubtful accounts, purchase accounting (including the ultimate recoverability of intangibles and other long-lived assets), valuation of deferred tax assets and contingencies surrounding litigation. 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.

Costs associated with carrying telecommunications traffic over our network and over the Company's leased lines are expensed when incurred, based on invoices received from the service providers. If invoices are not available in a timely fashion, estimates are utilized to accrue for these telecommunications network costs. These estimates are based on the understanding of variable and fixed costs in the Company's service agreements with these vendors in conjunction with the traffic volumes that has passed over the network and circuits provisioned at the contracted rates. Traffic volumes for a period are calculated from information received through the Company's network switches. From time to time, the Company has disputes with its vendors relating to telecommunications network services. In the event of such disputes, the Company records an expense based on its understanding of the agreement with that particular vendor, traffic information received from its network switches and other factors.

Allowances for doubtful accounts are maintained for estimated losses resulting from the failure of customers to make required payments on their accounts. The Company evaluates its provision for doubtful accounts at least quarterly based on various factors, including the financial condition and payment history of major customers and an overall review of collections experience on other accounts and economic factors or events expected to affect its future collections experience. Due to the large number of customers that the Company serves, it is impractical to review the creditworthiness of each of its customers, although a credit review is performed for larger carrier and retail business customers. The Company considers a number of factors in determining the proper level of the allowance, including historical collection experience, current economic trends, the aging of the accounts receivable portfolio and changes in the creditworthiness of its customers.

The Company accounts for intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations* ("SFAS 141") and SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). All business combinations are accounted for using the purchase method and goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually. Intangible assets are intially recorded based on estimates of fair value at the time of the acquisition

The Company assesses the fair value of its segments for goodwill impairment based upon a discounted cash flow methodology. If the carrying amount of the segment assets exceed the estimated fair value determined through the discounted cash flow analysis, goodwill impairment may be present. The Company would measure the goodwill impairment loss based upon the fair value of the underlying assets and liabilities of the segment, including any unrecognized intangible assets and estimate the implied fair value of goodwill. An impairment loss would be recognized to the extent that a reporting unit's recorded goodwill exceeded the implied fair value of goodwill.

The Company performed its annual impairment test in the fourth quarters of 2003 and 2002. No impairment was present upon performing these tests. We cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on its customer base or a material negative change in its relationships with significant customers.

Regularly, the Company evaluates whether events or circumstances have occurred that indicate the carrying value of its other amortizable intangible assets may not be recoverable. When factors indicate the asset may not be recoverable, the Company compares the related future net cash flows to the carrying value of the asset to determine if impairment exists. If the expected future net cash flows are less than carrying value, impairment is recognized to the extent that the carrying value exceeds the fair value of the asset.

The Company performs a valuation on its deferred tax asset, which has been generated by a history of net operating loss carryforwards, at least annually, and determine the necessity for a valuation allowance. The Company evaluates which portion, if any, will more likely than not be realized by offsetting future taxable income. The determination of that allowance includes a projection of its future taxable income, as well as consideration of any limitations that may exist on its use of its net operating loss or credit carryforwards.

The Company is involved from time to time in various legal matters arising out of its operations in the normal course of business. On a case by case basis, the Company evaluates the likelihood of possible outcomes for this litigation. Based on this evaluation, the Company determines whether a liability is appropriate. If the likelihood of a negative outcome is probable, and the amount is estimable, the Company accounts for the liability in the current period. A change in the circumstances surrounding any current litigation could have a material impact on the financial statements.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents primarily with financial institutions in California and Pennsylvania. These accounts may from time to time exceed federally insured limits. The Company has not experienced any losses on such accounts.

Provision for doubtful accounts

The Company evaluates the collectibility of its receivables at least quarterly, based upon various factors including the financial condition and payment history of major customers, and overall review of collections experience on other accounts and economic factors or events expected to affect the Company's future collections experience. Due to the large number of customers that the Company serves, it is impractical to review the creditworthiness of each of its customers, although a credit review is performed for larger carrier and retail business customers. The Company considers a number of factors in determining the proper level of the allowance, including historical collection experience, current economic trends, the aging of the accounts receivable portfolio and changes in the creditworthiness of its customers.

Furniture, fixtures, equipment and software

Furniture, fixtures, equipment and software are stated at cost. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Telecommunications network equipment	3-5 years
Furniture, fixtures and office equipment	3-10 years
Software and information systems	3 years

Long-lived assets that are to be disposed of by sale are carried at the lower of book value or estimated net realizable value less costs to sell.

Betterments and renewals that extend the life of the assets are capitalized. Other repairs and maintenance charges are expensed as incurred. The cost and related accumulated depreciation applicable to assets retired are removed from the accounts and the gain or loss on disposition is recognized in operations. The Company regularly evaluates whether events or circumstances have occurred that indicate the carrying value of its furniture, fixtures, equipment and software may not be recoverable. When factors indicate the asset may not be recoverable, the Company compares the related future net cash flows to the carrying value of the asset to determine if impairment exists. If the expected future net cash flows are less than the carrying value, impairment is recognized to the extent that the carrying value exceeds the fair value of the asset.

Investments

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

The Company holds investments in convertible preferred stock of two companies. These investments are accounted for under the cost method, as the securities or the underlying common stock are not readily marketable and the Company's ownership interests do not allow it to exercise significant influence over these entities. The Company monitors these investments for impairment 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 securities are 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.

Intangible assets

Effective January 1, 2002, the Company accounts for intangible assets in accordance with SFAS No. 141, *Business Combinations* ("SFAS 141") and SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). The adoption of SFAS 141 and 142 did not materially impact the results of operations or financial condition of the Company. All business combinations are accounted for using the purchase method and goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually.

The Company regularly evaluates whether events or circumstances have occurred that indicate the carrying value of its intangible assets may not be recoverable. When factors indicate the asset may not be recoverable, the Company compares the related future net cash flows to the carrying value of the asset to determine if impairment exists. If the expected future net cash flows are less than carrying value, impairment is recognized to the extent that the carrying value exceeds the fair value of the asset. The Company recorded a charge of approximately $8,040 in 2001, representing the remaining balance of the goodwill associated with the WebToTel acquisition. Amortization of intangible assets is calculated using the straight-line method over the following periods:

Enterprise customer contracts and relationships	60 months
Retail customer contracts and relationships	12 months
Agent relationships	36 months
Acquired patents	60 months
Agent contracts	12 months

Advertising costs

Advertising production costs are expensed the first time the advertisement is run. Media (television and print) placement costs are expensed in the month the advertising appears. The Company incurred $127, $1,590 and $7,270 in advertising costs in the years ended December 31, 2003, 2002 and 2001, respectively.

Research and development costs

The Company expenses internal research and development costs, which primarily consist of salaries, when they are incurred.

Computer software costs

The Company capitalizes qualified costs associated with developing computer software for internal use. Such costs are amortized over the expected useful life, usually three years. During 2003, the Company capitalized approximately $128 in costs associated with the development and installation of a new billing system to launch a local product offering. No such costs were capitalized during 2002 or 2001.

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 2003 or 2002. The only customer that accounted for over 10% of revenues for 2001 was Red Cube International AG ("Red Cube"), which accounted for approximately 18% of revenues. The Company performs ongoing credit evaluations of its larger carrier and retail business customers but generally does not require collateral to support customer receivables.

Concentration of third party service providers

Acceris utilizes the services of certain Competitive Local Exchange Carriers ("CLECs") to bill and collect from customers. A significant portion of revenues in the years ended December 31, 2003, 2002 and 2001 were derived from customers billed by CLECs. If the CLECs were unwilling or unable 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 could be adversely affected during this transition period.

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 would be adversely affected and the Company might not be able to obtain similar services from alternative carriers on a timely basis.

Income taxes

The Company records deferred taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"). The statement requires recognition of deferred tax assets and liabilities for temporary differences between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements, based upon the enacted tax rates in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized. The determination of that allowance includes a projection of the Company's future taxable income, as well as consideration of any limitations that may exist on the Company's use of its net operating loss or credit carryforwards.

Stock-based compensation

At December 31, 2003, the Company has several stock-based compensation plans, which are described more fully in Note 18. 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 the market value of the underlying common stock on the date of grant. In accordance with FASB SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), as amended by FASB 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) are recognized and measured using the fair value-based method prescribed by SFAS 123.

	Year ended December 31,		
	2003	2002	2001
Net loss as reported	$(26,321)	$(27,537)	$(44,497)
Deduct:			
Total compensation cost determined under fair value based method for all awards, net of $0 tax	(92)	(1,300)	(2,933)
Pro forma net loss	$(26,413)	$(28,837)	$(47,430)
Loss per share			
Basic and diluted – as reported	$ (3.75)	$ (4.73)	$ (5.90)
Basic and diluted – pro forma	$ (3.77)	$ (4.95)	$ (6.49)

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 98%, 150% and 120% in 2003, 2002 and 2001, respectively, risk free rates ranging from 2.76% to 3.00%, 2.02% to 4.40% and 3.17% to 6.62% in 2003, 2002 and 2001, respectively, expected lives of 4 years in 2003 and 3 years in 2002 and 2001, and dividend yield of zero for each year.

Segment reporting

The Company reports its segment information based upon the internal organization that is used by management for making operating decisions and assessing the Company's performance. In late 2002, Acceris was reorganized into three operating segments, Retail, Enterprise and Technologies. These segments were previously referred to as Acceris Communications Partners, Acceris Communications Solutions and Acceris Technologies, respectively. See Note 19 for a more detailed discussion of the segments.

Reclassifications

Certain balances in the consolidated financial statements as of and for the years ended December 31, 2002 and 2001 have been reclassified to conform to current year presentation. These changes had no effect on previously reported net loss, total assets, liabilities or stockholders' deficit. In 2003, the Company adopted SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002* ("SFAS 145"). SFAS 145 requires the modification of the Company's 2001 financial statement to reclassify the previously reported gain on debt extinguishment from an extraordinary item to discontinued operations.

Recent accounting pronouncements

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS 150"). SFAS 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires the classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS 150 on July 1, 2003 and the adoption did not have any effect on the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging* Activities ("SFAS 149"). This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This Statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003 and did not have any effect on the Company's financial position or results of operations.

In December 2003, the Securities and Exchange Commissions (the "SEC") issued Staff Accounting Bulletin ("SAB") No. 104, *Revenue Recognition* ("SAB 104"), which supersedes portions of SAB 101. The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superseded as a result of the issuance of the FASB's Emerging Issues Task Force Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"). While the wording of SAB 104 changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The adoption of SAB 104 did not have a material impact on the Company's financial position or results of operations.

Note 5 – Net Loss per Share and Reverse Stock Split

Basic earnings per share is computed based on the weighted average number of 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 had a net loss from continuing operations for 2003, 2002 and 2001, basic and diluted loss per share are the same.

On December 6, 2002, the Board of Directors approved a 1-for-20 reverse split of Acceris' common stock (the "Stock Split"). The stockholders' of Acceris approved the Stock Split by stockholder vote on November 26, 2003. In connection with the Stock Split the par value of the common stock was changed from $0.007 to $0.01 per share. The Stock Split reduced the shares of common stock outstanding by 365,977,409 shares. The basic and diluted net loss per common share and all other share amounts in these financial statements are presented as if the reverse stock split had occurred on January 1, 2001. Contemporaneous with the Stock Split, Counsel exercised its right to convert certain debt instruments into shares of the Company's common stock. As a result of the conversion, the Company issued to Counsel 13,428,492 shares of common stock on a post-split basis.

In January 2003, 150 shares of the Company's Class N preferred stock held by an unrelated third party were converted into 6,000 shares of common stock.

The basic and diluted net loss per common share for the year ended December 31, 2001 includes a net increase to retained earnings of approximately $30,292 attributable to the redemption on March 1, 2001 of the Class M redeemable preferred stock and all Class N preferred stock owned by Winter Harbor, including redemption of the beneficial conversion feature related to such preferred stock. In addition, there was a charge to retained earnings in 2001 of approximately $9,780 representing a contingent beneficial conversion feature on the Class N preferred stock resulting from the reset of the conversion price. The basic and diluted net loss per common share in 2001 also reflects a $5,000 charge to retained earnings for the beneficial conversion feature related to the reissuance on March 1, 2001 of the Class M and Class N preferred stock to Counsel. The net effect of these transactions was a benefit included in the net loss per common share of approximately $15,512 for the year ended December 31, 2001.

On September 6, 2001, all outstanding shares of the Company's Class C preferred stock automatically converted into shares of common stock according to the terms of the designation of the Class C preferred stock. Accordingly, 9,249 shares of Class C preferred stock were converted into 170,751 shares of common stock. In addition to the conversion of the preferred stock, the Company was obligated to pay dividends declared but unpaid and other dividends not paid on the preferred stock through the conversion date. Accordingly, dividends in the amount of approximately $630 were satisfied through the issuance of 26,701 shares of common stock.

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 as of December 31:

	2003	2002	2001
Assumed conversion of Class N preferred stock	24,760	30,760	30,760
Assumed conversion of convertible debt	2,574,631	6,272,030	1,142,625
Assumed exercise of options and warrants to purchase shares of common stock	1,807,880	1,258,464	1,401,673
	4,407,271	7,561,254	2,575,058

Note 6 – Investments

The Company's investments as of December 31, 2003 consist of convertible preferred stock and common stock holdings in one company and convertible preferred stock holdings in another. The first investment is in BUI which investment was consideration received related to the sale of the ILC business. This investment has been recorded at its estimated fair value as of the closing date of the sale of ILC. The carrying value of the investment as of closing (May 1, 2003) was $1,624 and as of December 31, 2003 was $2,058 due to additional shares of common stock received subsequent to May 1, 2003 as earn-out shares (see Note 7). Subsequent to December 31, 2003, but prior to the issuance of the Company's financial statements, the Company converted its preferred stock into shares of common stock of BUI and sold a portion of the common stock in a private placement (see Note 21). Accordingly, this investment in shares of preferred and common stock is classified as a current asset at December 31, 2003.

The second investment in convertible preferred stock is in Accessline Communications Corporation. This stock was received as consideration for a licensing agreement (reflected in technology licensing and related services revenues) in the second quarter of 2003, the estimated fair value of which was determined to be $1,100.

Note 7 – 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 includes the physical assets required to operate Acceris' nationwide network using its patented VoIP technology (constituting the core business of ILC) and a 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 are subject to an earn-out provision (contingent consideration) based on future events related to ILC's single largest customer. The earn-out takes place on a monthly basis over a fourteen-month period which began January 2003. The Company recognizes the value of the earn-out shares as additional sales proceeds when and if earned. During the year ending December 31, 2003, 64,286 shares of the contingent consideration were earned and are included as a component of gain (loss) from discontinued operations. The fair value of the 225,000 shares (non-contingent consideration to be received) of Buyers United convertible preferred stock was determined to be $1,350 as of December 31, 2002. As of December 31, 2003, the combined fair value of the original shares (225,000) and the shares earned from the contingent consideration (64,286 shares) was determined to be $1,916. The value of the shares earned from the contingent consideration is included in the calculation of gain from discontinued operation for the year ended December 31, 2003. As additional contingent consideration is earned, it is recorded as a gain from discontinued operations.

Upon closing of the sale, BUI assumed all operational losses since December 6, 2002. Accordingly, the gain of $529 for the year ended December 31, 2003, includes the increase in the sales price for the losses incurred since December 6, 2002. In the year ended December 31, 2002, the Company recorded a loss from discontinued operations related to ILC of $12,508.

Net assets and liabilities of the discontinued operations are as follows:

	2003	2002
Accounts receivable	$ 91	$ —
Furniture, fixtures equipment and software	—	2,667
Intangible assets	—	270
Impairment charge	—	(1,587)
Accrued expenses	(841)	—
Net assets (liabilities) of discontinued operations	$750	$ 1,350

Revenues of the discontinued operation were $2,108, $7,806 and $26,624 in 2003, 2002 and 2001, respectively.

Note 8 – Composition of Certain Financial Statements Captions

Furniture, fixtures, equipment and software consisted of the following at December 31:

	2003	2002
Telecommunications network equipment	$ 14,196	$14,361
Furniture, fixtures and office equipment	4,059	2,939
Building /leasehold improvements	305	219
Software and information systems	1,986	296
	20,546	17,815
Less accumulated depreciation and amortization	(12,063)	(6,336)
	$ 8,483	$11,479

Included in telecommunications network equipment is $9,739 in assets acquired under capital leases at December 31, 2003 and 2002. Accumulated amortization on these leased assets was $6,382 and $3,930 at December 31, 2003 and 2002, respectively.

Accounts payable and accrued liabilities consisted of the following at December 31:

	2003	2002
Accounts payable	$ 3,370	$ 7,017
Telecommunications and related costs	9,840	6,866
Regulatory fees	6,790	3,124
Other	8,272	8,100
	$28,272	$25,107

Note 9 – Acquisitions

Acquisition of WebToTel

On April 17, 2001, the Company completed its acquisition of WebToTel, Inc. ("WebToTel") and Nexbell Communications, Inc. ("Nexbell"), both previously subsidiaries of Counsel for 872,717 shares of the Company's common stock issued to Counsel. The acquisition of WebToTel was accounted for similar to a pooling-of-interests using Counsel's book values of the WebToTel assets and liabilities, effective March 1, 2001, the earliest date that all three entities were under common control of Counsel.

Nexbell was sold to a third party in December 2001. The sale was a sale of Nexbell's common stock and accordingly the assets and liabilities of Nexbell were assumed by the purchaser with no further financial obligation to the Company. At the time of the sale, the liabilities exceeded the assets of Nexbell and accordingly a gain on sale of subsidiary in the amount of $589 (the amount by which the liabilities of Nexbell exceeded the assets) was recorded.

Purchase of certain assets and assumption of certain liabilities of WorldxChange Communications, Inc.

On June 4, 2001, Acceris purchased certain assets and assumed certain liabilities of WorldxChange Communications, Inc. (the "Debtor") from a bankruptcy proceeding, creating WorldxChange. The purchased assets included all of the assets employed in the Debtor's operations in the United States and consisted of the Debtor's equipment, inventory, retail long-distance business, accounts receivable, deposits, licenses, permits, authorizations, software programs and related technology. On June 4, 2001, the Debtor transferred the purchased assets to WorldxChange in exchange for $13,000.

To fund the acquisition of the assets and provide working capital, Counsel agreed to provide a collateralized loan to Acceris in the aggregate amount of $15,000 (of which $13,000 was used for the purchase) as more fully described in Note 15.

The purchase price was allocated to the fair values of assets acquired and liabilities assumed as follows:

Accounts receivable and other current assets	$12,387
Furniture, fixtures, equipment and other long term assets	4,580
Accounts payable and accrued liabilities	(2,062)
Obligations under capital leases	(1,224)
Net cash paid	$13,681

Also, in connection with the acquisition, WorldxChange agreed to pay $727 to a supplier for services rendered prior to the acquisition to continue services with that vendor. The Company also incurred $681 of transaction costs related to the purchase.

Purchase of the Enterprise and Agent business of RSL COM USA Inc.

On December 10, 2002, Acceris through its subsidiary, WorldxChange, completed the purchase of the Enterprise and Agent business of RSL COM USA Inc., (previously defined as "RSL"). The purchase of RSL was to advance the Company's commercial agent business, to increase network utilization and to provide an entry into the management of information technology services for enterprise clients. Acceris paid a purchase price of $7,500 in cash, which was financed by a loan from Counsel to Acceris and assumed a non-interest bearing note for $1,000 which matures on March 31, 2004. The purchase contract provided for additional purchase consideration to be paid contingent on the achievement of certain revenue levels by the Enterprise business during 2003. At December 31, 2003, the Company has accrued an obligation of approximately $123 in connection with this earn out provision. The Company also incurred $1,014 of transaction costs related to the purchase. The $123 contingent payout resulted in an adjustment to the furniture, fixtures and equipment and intangible assets included in the purchase price at December 31, 2003. The Company does not expect any further adjustments to the purchase price, as the contingency period has ended.

The allocation of fair values of assets acquired and liabilities assumed is as follows:

Accounts receivable and other current assets	$ 6,444
Furniture, fixtures and equipment	3,307
Intangible assets	2,444
Accounts payable and accrued liabilities	(2,558)
	$ 9,637

Components of the acquired intangible assets are as follows:

	Amount	Amortization Period
Intangible assets subject to amortization:		
Customer contracts and relationships	$1,638	60 months
Agent relationships	564	36 months
Agent contracts	242	12 months
	$2,444	

Purchase of Transpoint Holdings, LLC.

In July 2002, the Company agreed to purchase certain assets and related liabilities of Transpoint Communications, LLC (previously defined as "Transpoint") and Local Telecom Holdings, LLC ("Local Telecom"). The acquisition closed on July 28, 2003. As of the closing date, the Company had an asset (which had been included in other assets) from Local Telecom of $2,836 that represented uncollected revenues from Local Telecom prior to the closing plus costs and expenses paid for Local Telecom, less collections on accounts receivable of Local Telecom. At closing, the $2,836 was applied as part of the total purchase price of $2,882. The intent of this acquisition was primarily to increase the Company's agent relationships in the Company's commercial agent business, increase its customer base and improve network utilization.

The final allocation of the purchase price to the fair values of assets acquired and liabilities assumed is summarized below. The allocation of the preliminary purchase has changed since September 30, 2003 based on completion of a valuation analysis.

Accounts receivable and other current assets	$ 685
Furniture, fixtures, and equipment	5
Intangible assets	1,917
Goodwill	947
Accounts payable and accrued liabilities	(672)
	$2,882

Components of the acquired intangible assets are as follows:

	Amount	Amortization Period
Intangible assets:		
Customer contracts and relationships	$ 367	60 months
Agent relationships	1,550	36 months
	$1,917	

Pro forma results of operations for the years ended December 31, 2003 and 2002 as if the acquisitions of certain assets of RSL and Transpoint had been completed as of the beginning of each year presented are shown below. The pro forma results do not include any anticipated cost savings or other effects of the planned integration of the operations, and are not necessarily indicative of the results which would have occurred if the business combination had occurred on the dates indicated, or which may result in the future.

	Year ended December 31,	
	2003	2002
Revenues	$140,995	$148,404
Loss from continuing operations	$ (27,892)	$ (20,614)
Net loss	$ (27,363)	$ (33,123)
Loss per share from continuing operations	$ (3.98)	$ (3.54)
Net loss per share	$ (3.90)	$ (5.68)

Note 10 – Intangible Assets and Goodwill

Intangible assets consisted of the following at December 31:

	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
Goodwill		1,120	—	1,120
Total intangible assets and goodwill		$5,584	$(1,167)	$4,417

	December 31, 2003			
	Amortization period	Cost	Accumulated amortization	Net
Intangible assets subject to amortization:				
Customer contracts and relationships	60 months	1,786	(20)	1,766
Agent relationships	36 months	588	(15)	573
Agent contracts	12 months	250	(15)	235
Goodwill		173		173
Total intangible assets and goodwill		$2,797	$(50)	$2,747

Aggregate amortization expense of intangibles for the years ended December 31, 2003, 2002 and 2001 was $1,117 , $937 and $3,287 respectively.

Note 11 – Debt

Debt, the carrying value of which approximates market, consists of the following at December 31:

	2003	2002
Note payable to a network service provider, interest at 10.0%, $23 per month	—	$ 394
Note payable to a network service provider, interest at 7.0%	—	747
Note payable, Winter Harbor LLC, interest at prime plus 9.0%	—	1,999
Note payable, RSL estate, 10.0% imputed interest, due March 31, 2004	$ 1,105	881
Note payable to equipment supplier 7.0%, $11 per month until December 2005, then $16 per month thereafter	750	—
Note payable to equipment supplier, 12.5%, $6 per month until October 2006	171	—
Revolving credit facility, greater of 6% or prime rate plus 1.75%	12,127	9,086
Notes payable to Counsel, interest at 10.0%	19,928	9,350
Note payable to Counsel and convertible to common stock, interest at 9.0%	15,145	13,271
Notes payable convertible to common stock, interest at 10.0%	—	36,718
	49,226	72,446
Less current portion	(13,381)	(12,073)
Long-term debt, less current portion	$ 35,845	$ 60,373

The Company was discharged of obligations amounting to $1,141 owed to a network service provider. The discharge of these obligations is reported as interest and other income in the accompanying consolidated statements of operations for the year ended December 31, 2003.

Counsel acquired a liability of the Company that it owed to Winter Harbor LLC. Counsel replaced the loan with a 10% loan maturing on June 30, 2005. See Note 15 below for further discussion.

The maturity date of the revolving credit facility has been extended from December 2004 to June 2005. The asset-based lender has first priority over all the assets and shares of common stock of WorldxChange. The asset-based facility provides the Company advances based on outstanding billings at rates of 65% on direct billings and 85% of other receivables of WorldxChange, subject to certain restrictions. The facility has certain covenants with which the Company is in compliance at December 31, 2003.

Counsel has a priority interest in the assets of Acceris and its subsidiaries, with the exception of the assets of WorldxChange, wherein Counsel has subordinated its position in favor of the priority interest of the asset-based lender. The amounts owed to Counsel pursuant to its various notes payable mature on June 30, 2005, with the exception of $5,600 of these notes, which is subject to certain acceleration provisions triggered by events including the sale of certain investments which Acceris holds at December 31, 2003 or a cash raise in the capital markets.

In the fourth quarter of 2003, Counsel exercised its conversion rights, and converted $40,673 of notes payable into shares of common stock of the Company. Pursuant to this conversion, Counsel received 13,428,492 shares of common stock, increasing its ownership in Acceris from 70% to approximately 91%.

For further discussion of notes payable and other transactions with Counsel, see Note 15, below.

Note 12 – *Commitments*

Agreements classified as operating leases have terms ranging from one to six years. The Company's rental expense, which is recognized on a straight line basis, for operating leases was approximately $2,148, $4,547, and $13,547 for 2003, 2002 and 2001, respectively.

Future minimum rental payments required under non-cancelable capital and operating leases with initial or remaining terms in excess of one year consist of the following at December 31, 2003:

	Capital Leases	Operating Leases
Year ended December 31:		
2004	$ 2,948	$2,373
2005	1,665	1,998
2006	—	1,265
2007	—	774
2008 and beyond	—	637
Total minimum payments	4,613	$7,047
Less amount representing interest	(267)	
Present value of net minimum lease payments	4,346	
Less current portion	(2,715)	
Long-term obligations under capital leases	$ 1,631	

From time to time, Acceris has various agreements with national carriers to lease local access spans and to purchase carrier services. The agreements include minimum usage commitments with termination penalties up to 100% of the remaining commitment. At December 31, 2003 all of the Company's minimum usage commitments have been met.

Note 13 – Gain on Extinguishment of Debt

During the third quarter of 2001, Nexbell was in default on two leases and at the time of settlement Nexbell was liable for $1,273. The debt was settled during the fourth quarter of 2001 for a one-time payment of $180 and accordingly the Company recorded a gain in the amount of $1,093. In accordance with SFAS 145, the Company has reclassified this gain to be included in the results from discontinued operations for the year ended December 31, 2001. Originally, the amount was recorded as an extraordinary gain.

Note 14 – Income Taxes

The Company recognized no income tax benefit from its losses in 2003, 2002 and 2001. The reported benefit from income taxes varies from the amount that would be provided by applying the statutory U.S. Federal income tax rate to the loss from continuing operations before taxes for the following reasons:

	2003	2002	2001
Expected federal statutory tax benefit	$(9,129)	$(5,110)	$(8,831)
Increase (reduction) in taxes resulting from:			
State income taxes	(728)	(430)	(506)
Foreign loss not subject to domestic tax	5	1	234
Non-deductible interest on certain notes	1,628	672	357
Non-deductible goodwill	—	—	3,096
Change in valuation allowance attributable to continuing operations	8,208	4,859	7,457
Other	16	8	(1,807)
	$ —	$ —	$ —

The change in the valuation allowance, including discontinued operations, was $6,076, $9,523 and $14,356 for the years ended 2003, 2002 and 2001 respectively.

At December 31, 2003, the Company had total net operating loss carryforwards for federal income tax purposes of approximately $157,000. These net operating loss carryforwards expire between 2006 and 2023.

The Company's utilization of approximately $154,000 of its available net operating loss carryforwards against future taxable income is restricted pursuant to the "change in ownership" rules in Section 382 of the Internal Revenue Code. 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.

Restrictions in net operating loss carryforwards occurred in 2001 as a result of the acquisition of the Company by Counsel. Further restrictions likely have occurred as a result of subsequent changes in the share ownership and capital structure of the Company and Counsel. Net operating loss carryforwards arising prior to such a "change in ownership" would be available for usage against future taxable income subject to an annual usage limitation of approximately $6,000 per annum until 2008 and thereafter $1,550 per annum respectively.

Due to the expiration of the Company's net operating loss carryforwards and the above possible usage restrictions, it is most likely that only $53,000 of the total $157,000 of net operating loss carryforwards otherwise available will be able to be utilized against future taxable income.

The Company also has net operating loss carryforwards for state income tax purposes in those states where it has conducted business. Available state tax loss carryforwards however may differ substantially by jurisdiction and in general are subject to the same or similar restrictions as to expiry and usage described above. The Company is subject to state income tax in multiple jurisdictions.

The components of the deferred tax asset and liability of continuing and discontinued operations as of December 31, 2003 and 2002 are as follows:

	2003	2002
Deferred tax assets:		
Tax net operating loss carryforwards	$ 58,386	$ 51,690
Acquired in-process research and development and intangible assets	3,441	3,435
Investments	405	—
Amortization of deferred compensation on stock options	—	1,933
Reserve for loss on disposal of discontinued operations	—	304
Reserve for accounts receivable	1,368	659
Accrued officers wages	121	75
Accrued vacation	275	80
Accrued interest	11	—
Unearned revenue	2,579	1,924
Other	594	150
Depreciation and amortization	854	1,708
Valuation allowance	(68,034)	(61,958)
Total deferred tax asset	—	—
Deferred tax liabilities:		
Total deferred tax liability	—	—
Net deferred tax asset	$ —	$ —

As the Company has not generated taxable income from its communications services in the past, a valuation allowance has been provided at December 31, 2003 and 2002 to reduce the total deferred tax asset to nil, the amount considered more likely than not to be realized. The change in the valuation allowance in the year is due primarily to an increase in the Company's net operating loss carryforwards.

Note 15 – Transactions with Significant Owners

Transactions with Counsel:

Initial Acquisition of Acceris and Senior Convertible Loan

On March 1, 2001, Acceris entered into a Senior Convertible Loan and Security Agreement, (the "Senior Loan Agreement") with Counsel. Pursuant to the terms and provisions of the Senior Loan Agreement, Counsel agreed to make periodic loans to Acceris in the aggregate principal amount not to exceed $10,000, which was subsequently increased to $12,000 through amendment on May 8, 2001. Advances against the Senior Loan Agreement were structured as a 3-year convertible note with interest at 9% per annum, compounded quarterly. Counsel initially could convert the loan into shares of common stock of Acceris at a conversion price of $11.20 per common share. The terms of the Senior Loan Agreement also provide that at any time after September 1, 2002, the outstanding debt including accrued interest would automatically be converted into common stock using the then current conversion rate, on the first date that is the twentieth consecutive trading day that the common stock has closed at a price per share that is equal to or greater than $20.00 per share. The Senior Loan Agreement also provides that the conversion price is in certain cases subject to adjustment and includes traditional anti-dilution protection for the lender and is subject to certain events of default, which could accelerate the repayment of principal plus accrued interest. Total proceeds available to the Company were $12,000, less debt issuance costs of $600, which are being amortized over three years. The Senior Loan Agreement has been amended several times and the maturity date of the loan plus accrued interest has been extended to June 30, 2005. As a result of the application of the anti-dilution provisions of the Senior Loan Agreement, the conversion price has been adjusted to $5.94 per common share. As of December 31, 2003, the total outstanding debt under the Note (including principal and accrued interest) was $15,291 which is convertible into 2,574,663 shares of common stock.

In connection with the above Senior Loan Agreement, Acceris granted Counsel a security interest in all of Acceris' assets owned at the time of execution of the Senior Loan Agreement or subsequently acquired, including but not limited to Acceris' accounts receivable, intangibles, inventory, equipment, books and records, and negotiable instruments held by the Company (collectively, the "Collateral"). The Senior Loan Agreement also includes demand registration rights for common stock issuable upon conversion of the related loan.

In addition to the foregoing agreements, Acceris and Counsel executed a Securities Support Agreement, dated March 1, 2001 (the "Support Agreement") for the purpose of providing certain representations and commitments by Acceris to Counsel. Counsel relied on these representations and commitments in its decision to enter a separate agreement (the "Securities Purchase Agreement") with Winter Harbor and First Media L.P., a limited partnership and the parent company of Winter Harbor (collectively the "Winter Harbor Parties"), Counsel agreed to purchase from the Winter Harbor Parties all of their equity securities in Acceris, including shares of Class M and Class N preferred stock of Acceris, beneficially owned by the Winter Harbor Parties for aggregate consideration of $5,000 in cash.

On March 7, 2001, as part of the agreements discussed above, Counsel converted all of the Class M and N convertible preferred stock it obtained from Winter Harbor into 3,098,303 shares of Acceris' common stock. The Class N shares were converted at $25.00 per common share and Class M at $11.20 per common share, in accordance with their respective conversion rights. Pursuant to the Securities Purchase Agreement, certain shares of common stock owned by the Winter Harbor Parties were held in escrow pending resolution of certain events.

Under the Support Agreement of March 1, 2001, Acceris also agreed to engage appropriate advisors and proceed to take all steps necessary to merge Nexbell Communications, Inc. (a subsidiary of Counsel) into Acceris. The merger was completed on April 17, 2001 and Counsel received 871,724 shares of common stock in Acceris as consideration.

Assignment of Winter Harbor Common Stock and Debt Interests

Pursuant to the terms of a settlement agreed between Counsel and the Winter Harbor Parties effective August 29, 2003, the Winter Harbor Parties relinquished their right to 118,750 shares of the common stock of Acceris to Counsel. These shares were released from escrow and delivered to Counsel.

The Winter Harbor Parties further assigned to Counsel all of their rights with respect to a note payable by Acceris of $1,999 drawn down pursuant to a Letter of Credit issued November 3, 1998 to secure certain obligations of Acceris together with any accrued interest thereon. The assigned amount together with accrued interest amounted to $2,577 on August 29, 2003. As a result of the settlement and assignment, Acceris entered into a new loan agreement with Counsel the terms of which provide that from August 29, 2003 the loan balance of $2,577 shall bear interest at 10% per annum compounded quarterly with the aggregate balance of principal and accrued interest payable on maturity of the loan on June 30, 2005. This loan agreement was subsequently amended and restated to increase the principal of the loan by a further $100 for funding provided by Counsel to enable Acceris to acquire a VoIP patent in December 2003 and to allow for the making of further periodic advances thereunder at Counsel's discretion. The loan amount has been further increased by $1,546 at December 31, 2003 representing operating advances from Counsel to Acceris in the period since the initial acquisition of the Acceris common stock by Counsel in March 2001, which had previously been recorded as an intercompany payable to Counsel. As of December 31, 2003, the total outstanding debt under the Note (including principal and accrued interest) was $4,311.

Loan and Security Agreement and Amended Debt Restructuring

On June 6, 2001, Acceris and Counsel entered into a Loan and Security Agreement (the "Loan Agreement"). Any funds advanced to Acceris between June 6, 2001 and April 15, 2002, (not to exceed $10,000) were governed by the Loan Agreement and due on June 6, 2002. The loan was secured by all of the assets of Acceris. As of December 31, 2001, advances under this loan agreement totaled $10,000. On June 27, 2002 the Loan Agreement was amended to an amount of $24,307, which included additional capital advances from Counsel to Acceris made from December 31, 2001 through June 6, 2002. The amended agreement also further provided for additional advances as needed to Acceris, which advances totaled $2,087 through December 31, 2002 and $650 through November 30, 2003.

On July 25, 2002, Acceris and Counsel entered into a Debt Restructuring Agreement ("Debt Restructuring Agreement"), which was amended on October 15, 2002 pursuant to an Amended and Restated Debt Restructuring Agreement ("Amended Agreement"). The Amended Agreement included the following terms:

1. Principal ($24,307) and associated accrued interest ($2,284), as of October 15, 2002, under the Loan Agreement, as amended, would be exchanged for common stock of Acceris at $3.77 per share (representing the average closing price of Acceris' common stock during May 2002).

2. Funding provided by Counsel pursuant to the Loan Agreement, as amended, ($2,087) and associated accrued interest ($1,996) from October 15, 2002 to December 31, 2002, would be exchanged for common stock of Acceris at $3.77 per share (representing the average closing price of Acceris' common stock during May 2002).

3. Counsel would advance to Acceris all amounts paid or payable by Acceris to its stockholders that exercised their dissenters' rights in connection with the transactions subject to the debt restructuring transactions and the amount of the annual premium to renew the existing directors and officers' insurance coverage through November 2003.

4. Counsel would reimburse Acceris for all costs, fees and expenses, in connection with the Debt Restructuring Agreement and the Amended Agreement and transactions contemplated thereby including all expenses incurred and yet to be incurred, including the Special Committee's costs to negotiate these agreements and costs related to obtaining stockholder approval. During 2003 and 2002, Counsel reimbursed Acceris $132 and $499, respectively, for certain reimbursable expenses, which have been recorded as additional paid-in capital.

5. The issuance of common stock by Acceris pursuant to this Agreement would result in a weighted average conversion price adjustment pursuant to the provisions of the March 1, 2002 Loan Agreement. Whereas the conversion price for the March 1, 2002 Loan Agreement had initially been $11.20, the new conversion price would be adjusted as a result of the anti-dilution provisions of the Senior Loan Agreement. At December 31, 2003, the new conversion price is $5.94 per common share.

   Effective November 30, 2003, 8,681,096 shares of common stock were issued to Counsel in settlement of the underlying debt and accrued interest.

Convertible Promissory Note to Fund RSL Acquisition

In connection with the acquisition of RSL in December 2002, Acceris issued a $7,500 convertible note payable ("the Convertible Note") to Counsel, bearing interest at 10% per annum compounded quarterly which matured on March 1, 2004. The Convertible Note was convertible into common stock of Acceris at a conversion rate of $1.68 per share. On November 30, 2003, Counsel exercised its right to convert the Convertible Note plus accrued interest to that date totaling $7,952 into common stock of Acceris. This resulted in the issuance of 4,747,396 shares of Acceris common stock.

Collateralized Promissory Note and Loan Agreement

During the third quarter of 2003, Counsel advanced the sum of $5,600 to Acceris evidenced by a promissory note effective October 1, 2003. In January 2004, Acceris and Counsel entered into a loan agreement and an amended and restated promissory note pursuant to which an additional $2,000 was loaned to Acceris and pursuant to which additional periodic loans may be made from time to time (collectively and as amended, the "Promissory Note"). The Promissory Note matures on June 30, 2005 and accrues interest at 10% per annum compounded quarterly from the date funds are advanced. The Promissory Note is collateralized by certain shares of Series B Convertible Preferred Stock (the "Preferred Stock") of Buyers United, Inc. (a third party), which are held by Acceris. In the event of the sale of the Preferred Stock (or the common stock to which the Preferred Stock is convertible) by Acceris or an equity investment or investments in Acceris by a third party through the capital markets and subject to certain limitations, the maturity date of the Promissory Note will accelerate to the date 10 calendar days following either such event. As of the date of this filing, subsequent to year end, Counsel has provided an aggregate of $4,050 of funds in 2004 pursuant to this loan agreement. There are no conversion features associated with the Promissory Note.

Secured Loan to Acceris

To fund the acquisition of the assets purchased and liabilities assumed by WorldxChange, on June 4, 2001 Counsel provided a loan ("the Initial Loan") to WorldxChange in the aggregate amount of $15,000. The loan was subordinated to a revolving credit facility with Foothill Capital Corporation ("Foothill") and was collateralized against all assets of WorldxChange.

On October 1, 2003, Counsel assigned the balance owing in connection with this loan of $9,743 including accrued interest ("the Assigned Loan") to Acceris in exchange for a new loan bearing interest at 10% per annum compounded quarterly maturing on June 30, 2005 ("the New Loan"). Consistent with the terms of the Initial Loan, subject to certain conditions, the New Loan provides for certain mandatory prepayments upon written notice from Counsel including an event resulting in the issuance of new shares by Acceris to a party unrelated to Counsel where the funds are not used for an approved expanded business plan or where Acceris has sold material assets in excess of cash proceeds of $1,000. Pursuant to a Stock Pledge Agreement as amended, the New Loan is secured by the common stock held by Acceris in WorldxChange subject to the priority security interests of Foothill, the Company's asset-based lender.

Counsel Keep Well

As a result of Counsel's purchase of Winter Harbor's security holdings in Acceris, Counsel became the single largest stockholder of the Company. In addition to the above transactions, Counsel has committed to fund, through long-term inter company advances or equity contribution, all capital investment, working capital or other operational cash requirements of Acceris through June 30, 2005 ("the Keep Well"). By virtue of the Keep Well any default and loan repayment accelerator provisions in respect of the above loans agreements are also indirectly subject to funding by Counsel under the terms of the Keep Well.

Accounting treatment of Counsel and Winter Harbor transactions

The repurchase on March 1, 2001 by Acceris of Winter Harbor's 1,677,000 warrants for 250,000 common shares was recorded at market value of the common stock issued in the exchange amounting to $3,750. The repurchase was accounted for similar to the repurchase of treasury stock. Accordingly, common stock and additional paid in capital was increased by $3,750 which was offset by a charge to additional paid in capital of $3,715 to reflect the warrant repurchase. The net effect of this transaction was the recording of additional par value of $35 for the 250,000 shares issued during the year ended December 31, 2001.

As the conversion price for Class M preferred stock had dropped to $25 per share (from its original conversion price of $55.60), an amount reflecting the increase in the beneficial conversion feature was recorded in connection with the March 1, 2001 transaction as an increase in additional paid in capital and a charge to accumulated deficit for $9,780. The purchase and sale of the Class M and Class N preferred stock between Winter Harbor and Counsel, as described above, have been imputed in Acceris' financial statements as if the transactions had been effected through Acceris as a repurchase of the preferred stock from Winter Harbor and a reissuance to Counsel. Accordingly, the transaction was considered a repurchase of Winter Harbor's Class M and N preferred stock in exchange for $5,000. The difference between the carrying value of the Class M and N preferred stock and the $5,000 paid was recorded as an adjustment to retained earnings reflected in the form of a $30,292 contribution from settlement of these transactions between stockholders and has been reflected as such in the statement of changes in stockholders' deficit for the year ended December 31, 2001. In addition, the transaction considered that Acceris resold the Class M and N preferred stock to Counsel for $5,000 (Counsel's payment to Winter Harbor). However, since the conversion price on the Class M shares was below the market price on the day the transaction closed, a beneficial conversion feature was recorded as the difference between the market price of the common shares and the conversion price per share multiplied by the number of common shares into which the Class M and Class N could convert. This amount was limited to the proceeds.

The Company has also recorded a beneficial conversion feature (debt discount) in the amount of $1,018 on the convertible debt funded by Counsel that was received through March 31, 2001. The amount of the discount, if applicable, is calculated as the difference between the initial conversion price ($11.20) and the market price of the common stock (if higher than the conversion price on the date funds are drawn on the loan), multiplied by the number of shares of common stock into which the note can be converted. The beneficial conversion feature is being amortized over the life of the note payable (three years).

Counsel Management Services

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 equal to 100% of his base salary. For 2003, no bonus was awarded. The CEO has elected to assign his salary payable at December 31, 2003 of $275 to Counsel. This amount is recorded as a liability to Counsel in the accompanying Consolidated Balance Sheets. Counsel also provides other management services to Acceris through time spent by Counsel executives serving roles at Acceris. Accordingly, Acceris has valued the services of these other employees at approximately $130 for the year ended December 31, 2003. The expense has been reflected in selling, general, administrative and other expense for the year ended December 31, 2003, offset by an increase to additional paid-in capital.

Note 16 – Legal Proceedings

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

Note 17 – Class N Preferred Stock

On July 23, 1999, the Company completed its offering of 20,000 shares of Class N preferred stock. The offering was fully subscribed through cash subscriptions and the Company exercised its rights to exchange notes payable to Winter Harbor of $8,000 and $4,000, plus accrued interest. In total the Company received $7,281 in cash (before expenses of $487) and exchanged $12,719 in debt and accrued interest. The Class N conversion price was initially set at $2.78 per share. The conversion rate was adjusted to $29.60 per share as of December 31, 2000 and $25.00 per share in January 2001 based on 110% of the average trading price for any 20 day period following the date that Class N preferred stock is first issued subject to a floor of $25.00. The Class N preferred stock votes with the common stock on an as converted basis and is senior to all other preferred stock of the Company. Dividends, if any, will be paid on an as converted basis equal to common stock dividends.

During 2003, holders of the Class N preferred stock converted 150 of those shares into 6,000 shares of common stock. As of December 31, 2003 and 2002, there were 619 and 769 shares of Class N preferred stock outstanding, respectively.

At December 31, 2003 and 2002, of the 10,000,000 shares of preferred stock authorized, 9,486,500 remain undesignated and unissued.

Note 18 – Stock-Based Compensation Plans

In November 2003, the Company's stockholders approved a 1-for-20 reverse stock split. Accordingly, all information presented below has been adjusted to reflect the reverse split.

2003 Stock Option and Appreciation Rights Plan

In November 2003, the stockholders of the Company approved the 2003 Stock Option and Appreciation Rights Plan (the "2003 Plan") which provides for the issuance of incentive stock options, non-qualified stock options and stock appreciation rights ("SARs") up to an aggregate of 2,000,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). The price at which shares of common stock covered by the option can be purchased is determined by the Company's Board of Directors or its committee; however, in the case of incentive stock options the exercise price shall not be less than the fair market value of the Company's common stock on the date the option is granted. There were 1,372,000 options granted (and outstanding at December 31, 2003) under the 2003 Plan in 2003. The outstanding options vest over four years at exercise prices of $3.00 per share. No SARs have been issued under the 2003 Plan.

1997 Recruitment Stock Option Plan

In October 2000, the stockholders of the Company approved an amendment of the 1997 Recruitment Stock Option Plan (the "1997 Plan") which provides for the issuance of incentive stock options, non-qualified stock options and SARs up to an aggregate of 370,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). The price at which shares of common stock covered by the option can be purchased is determined by the Company's Board of Directors; however, in all instances the exercise price is never less than the fair market value of the Company's common stock on the date the option is granted.

As of December 31, 2003, there were options to purchase 60,480 shares of the Company's common stock outstanding under the 1997 Plan. The outstanding options vest over three years at exercise prices ranging from $1.40 to $127.50 per share. Options issued under the 1997 Plan must be exercised within ten years of grant and can only be exercised while the option holder is an employee of the Company. The Company has not awarded any SARs under the 1997 Plan. During 2003, 2002 and 2001, options to purchase 45,067, 42,968 and 130,022 shares of common stock, respectively, were forfeited or expired. There were no exercises during 2003.

Director Stock Option Plan

The Company's Director Stock Option Plan authorizes the grant of stock options to directors of the Company. Options granted under the Plan are non-qualified stock options exercisable at a price equal to the fair market value per share of common stock on the date of any such grant. Options granted under the Plan are exercisable not less than six months or more than ten years after the date of grant.

As of December 31, 2003, options for the purchase of 233 shares of common stock at prices ranging from $17.50 to $77.50 per share were outstanding, all of which are exercisable. In connection with the adoption of the 1995 Director Plan, the Board of Directors authorized the termination of future grants of options under the plan; however, outstanding options granted under the plan will continue to be governed by the terms thereof until exercise or expiration of such options. In 2003, no options were exercised or expired.

1995 Director Stock Option and Appreciation Rights Plan

The 1995 Director Stock Option and Appreciation Rights Plan (the "1995 Director Plan") provides for the issuance of incentive options, non-qualified options and SARs to directors of the Company up to 12,500 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events).

The 1995 Director Plan also provides for the grant of non-qualified options on a discretionary basis to each member of the Board of Directors then serving to purchase 500 shares of common stock at an exercise price equal to the fair market value per share of the common stock on that date. Each option is immediately exercisable for a period of ten years from the date of grant. The Company has 9,500 shares of common stock reserved for issuance under the 1995 Director Plan. As of December 31, 2003, options to purchase 8,500 shares of common stock at prices ranging from $20.00 to $25.00 per share are outstanding and exercisable. No options were granted or exercised under this plan in 2003, 2002 or 2001.

1995 Employee Stock Option and Appreciation Rights Plan

The 1995 Employee Stock Option and Appreciation Rights Plan (the "1995 Employee Plan") provides for the issuance of incentive options, non-qualified options, and SARs. Directors of the Company are not eligible to participate in the 1995 Employee Plan. The 1995 Employee Plan provides for the grant of stock options which qualify as incentive stock options under Section 422 of the Internal Revenue Code, to be issued to officers who are employees and other employees, as well as non-qualified options to be issued to officers, employees and consultants. In addition, SARs may be granted in conjunction with the grant of incentive options and non-qualified options.

The 1995 Employee Plan provides for the grant of incentive options, non-qualified options and SARs of up to 20,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). To the extent that an incentive option or non-qualified option is not exercised within the period of exercisability specified therein, it will expire as to the then unexercisable portion. If any incentive option, non-qualified option or SAR terminates prior to exercise thereof and during the duration of the 1995 Employee Plan, the shares of common stock as to which such option or right was not exercised will become available under the 1995 Employee Plan for the grant of additional options or rights to any eligible employee. The shares of common stock subject to the 1995 Employee Plan may be made available from either authorized but unissued shares, treasury shares or both. The Company has 20,000 shares of common stock reserved for issuance under the 1995 Employee Plan. As of December 31, 2003, there were no options outstanding under the 1995 Employee Plan. During 2003, 2002 and 2001, options to purchase 6,763, 500 and 1,875, respectively, of common stock were forfeited or expired. No options were granted or exercised in 2003.

Other warrants and options

In 1996, the Company approved the issuance of 87,500 options to executives of the Company, as part of their employment agreements, and 3,200 options to a consultant. The options expire in 2006 and have an option price of $78.00. No options expired, were exercised or forfeited during 2003. As of December 31, 2003, there remained 78,200 options outstanding.

During 1997, the Company issued options to purchase 60,500 shares of common stock (10,500 of which were issued under the 1997 recruitment stock option plan) to consultants at exercise prices ranging from $97.50 to $168.75 (repriced to $78.00 on December 13, 1998), which was based on the closing price of the stock at the grant date. No options expired, were exercised or forfeited during 2003. The remaining options must be exercised within ten years of the grant date. As of December 31, 2003 there remained 44,500 options outstanding.

During 1997, the Company issued non-qualified options to purchase 114,750 shares of common stock to certain executive employees. The options must be exercised within ten years of the grant date and have an exercise price of $78.00. There were no options forfeited in 2003, 2002 or 2001. No options expired or were exercised during 2003. As of December 31, 2003 there remained 105,915 options outstanding.

During 1998, the Company issued non-qualified options to purchase 46,750 shares of common stock to certain executive employees at exercise prices ranging from $51.26 to $62.50, which price was based on the closing price of the stock at the grant date. The options must be exercised within ten years of the grant date. No options expired, were exercised or forfeited during 2003. As of December 31, 2003 there remained 40,470 options outstanding.

During 1999, the Company issued non-qualified options to purchase 32,750 shares of common stock to certain executive employees at exercise prices ranging from $50.00 to 71.26, which price was based on the closing price of the stock at the grant date. The options must be exercised within ten years of the grant date. No options were exercised during 2003 or 2002. During 2001, 2,500 of these options were forfeited. During 2000, options to purchase 11,500 shares of common stock were exercised. As of December 31, 2003, there remained 18,750 options outstanding.

During 1999, the Company issued non-qualified options to purchase 10,000 shares of common stock to a consultant at an exercise price of $60.00, which was based on the closing price of the stock at the grant date. The fair value of the options issued was recorded as deferred compensation of $300,000 to be amortized over the expected period the services were to be provided. As of December 31, 2003 there remained 10,000 options outstanding.

During 2000, the Company issued non-qualified options to purchase 129,250 shares of common stock to certain executive employees at exercise prices ranging from $55.00 to $127.50, which price was based on the closing price of the stock at the grant date. The options must be exercised within ten years of the grant date. During 2001, 60,417 of these options were forfeited. As of December 31, 2003, there remained 68,833 options outstanding.

During 2000 the Company obtained approval from its stockholders to establish the 2000 Employee Stock Purchase Plan. This plan allows all eligible employees of the Company to have payroll withholding of 1 to 15 percent of their wages. The amounts withheld during a calendar quarter are then used to purchase common stock at a 15 percent discount off the lower of the closing sale price of the Company's stock on the first or last day of each quarter. This plan was approved by the Board of Directors, subject to stockholder approval, and was effective beginning the third quarter of 2000. The Company issued 1,726 shares to employees based upon payroll withholdings during 2001, respectively. There were no issuances in 2002 or 2003.

The following table summarizes the changes in common stock options for the common stock option plans described above:

	2003		2002		2001	
	Options and Warrants	Weighted Average Exercise Price	Options and Warrants	Weighted Average Exercise Price	Options and Warrants	Weighted Average Exercise Price
Outstanding at beginning of year	1,258,463	$36.40	1,401,673	$ 45.40	2,267,750	$51.40
Granted	1,377,662	3.00	4,750	1.40	1,025,478	15.20
Exercised	—	—	—	—	—	—
Expired	(828,246)	20.46	(130,271)	126.80	(82,159)	68.60
Forfeited	—		(17,689)	85.40	(1,809,396)	28.40
Outstanding at end of year	1,807,879	$18.20	1,258,463	$ 36.40	1,401,673	$45.40
Options and warrants exercisable at year end	435,880		1,256,828		1,354,510	
Weighted-average fair value of options and warrants granted during the year		$ 2.07		$ 0.60		$11.40

The following table summarizes information about fixed stock options and warrants outstanding at December 31, 2003:

Exercise price	Options and Warrants Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2003	Weighted Average Exercise Price
$ 1.40 to $ 3.00	1,381,662	9.96	$ 2.99	9,662	$ 1.98
$ 5.40 to $ 25.00	19,861	4.97	16.68	19,861	16.68
$42.50 to $ 71.26	167,931	5.47	56.88	167,931	56.88
$77.50 to $127.50	238,425	3.23	79.22	238,426	79.22
	1,807,879	8.60	$18.20	435,880	$66.05

Note 19 – Segment of Business Reporting

The Company's reportable segments are as follows:

- Enterprise – is comprised of the enterprise business of RSL which was acquired in December 2002. This segment offers voice and data solutions to enterprise customers through an in-house sales force.
- Retail – includes operations of WorldxChange (began operations in June 2001 and was formerly reported as the dial-around segment) and the agent and residential business of RSL which was acquired in December 2002. This segment offers a dial around telecommunications product and a 1+ product through two channels, namely, multi-level marketing (MLM) and commercial agents.
- Technologies – is the former technology licensing and development segment, which segment offers a fully developed network convergence solution for voice and data. The Company licenses certain developed technology to third party users.

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 net loss and segment assets used by the Company as of and for the three years ended December 31, 2003.

	For the Year ended December 31, 2003			
	Enterprise	Retail	Technologies	Total Reportable Segments
Revenues from external customers	$25,615	$108,150	$2,164	$135,929
Interest and other income	2	—	—	2
Interest expense	294	2,416	—	2,710
Depreciation and amortization expense	2,241	4,883	—	7,124
Segment income (loss) from continuing operations	(2,575)	(17,821)	1,014	(19,382)
Other significant non-cash items:				
Provision for doubtful accounts	—	5,432	6	5,438
Expenditures for long-lived assets	265	2,535	—	2,800
Segment assets	6,462	28,992	1,215	36,669

	For the Year ended December 31, 2002			
	Enterprise	Retail	Technologies	Total Reportable Segments
Revenues from external customers	$1,547	$83,706	$2,837	$88,090
Interest and other income	1	356	—	357
Interest expense	19	3,279	—	3,298
Depreciation and amortization expense	158	4,056	11	4,225
Segment income (loss) from operations	(629)	(6,715)	976	(6,368)
Other significant non-cash items:				
Provision for doubtful accounts	33	5,966	—	5,999
Expenditures for long-lived assets	3,102	3,747	—	6,849
Segment assets	9,573	27,877	173	37,623

	For the Year ended December 31, 2001		
	Retail	Technologies	Total Reportable Segments
Revenues from external customers	$ 50,289	$5,697	$ 55,986
Interest revenue	—	—	—
Interest expense	2,499	—	2,499
Depreciation and amortization expense	2,286	126	2,412
Segment income (loss) from operations	(13,927)	1,611	(12,316)
Other significant non-cash items:			
Provision for doubtful accounts	2,861	—	2,861
Expenditures for long-lived assets	14,797	8	14,805
Segment assets	32,206	137	32,343

The following table reconciles reportable segment information to the consolidated financial statements of the Company:

	2003	2002	2001
Total interest and other income for reportable segments	$ 2	$ 357	$ —
Unallocated interest revenue from corporate accounts	1,214	38	81
	$ 1,216	$ 395	$ 81
Total interest expense for reportable segments	$ 2,710	$ 3,298	$ 2,499
Unallocated interest expense from related party debt	4,230	4,211	1,556
Other unallocated interest expense from corporate debt	1,222	385	638
	$ 8,162	$ 7,894	$ 4,693
Total depreciation and amortization for reportable segments	$ 7,124	$ 4,225	$ 2,412
Unallocated amortization expense from intangible assets	—	—	2,608
Other unallocated depreciation from corporate assets	1	45	1,389
	$ 7,125	$ 4,270	$ 6,409
Total segment loss	$(19,382)	$ (6,368)	$(12,316)
Unallocated non-cash amounts in consolidated net loss:			
Amortization of discount on notes payable	(676)	(560)	(253)
Gain on sale of subsidiary	—	—	589
Other income (primarily gain on extinguishment of debt)	1,220		
Amortization of deferred compensation on stock options issued for services	—	—	—
Amortization of intangible assets	—	—	(2,608)
Other corporate expenses (primarily corporate level interest, general and administrative expenses)	(8,012)	(8,101)	(11,387)
Net loss from continuing operations	$(26,850)	$(15,029)	$(25,975)
Total amortization of deferred compensation for reportable segments	2	—	—
Unallocated amortization of deferred compensation	—	—	—
	2	—	—
Expenditures for segment long-lived assets	$ 2,800	$ 6,849	$ 14,805
Other unallocated expenditures for corporate assets	2,844	309	1,274
	$ 5,644	$ 7,158	$ 16,079
Segment assets	$ 36,669	$ 37,623	$ 32,343
Intangible assets not allocated to segments	—	—	1,331
Other assets not allocated to segments*	2,385	3,823	13,106
	$ 39,054	$ 41,446	$ 46,780

* Other assets not allocated to segments includes assets associated with segments reported in previous periods which are no longer classified as reportable segments, primarily assets of and related to the discontinued operations of ILC (former telecommunications services segment).

Note 20 – Summarized Quarterly Data (unaudited)

Following is a summary of the quarterly results of operations for the years ended December 31, 2003 and 2002. The amounts for the 2002 and the first quarter of 2003 have been restated to reclassify amounts as discontinued operations related to the sale of ILC in December 2002, which had previously been reported in continuing operations.

(in thousands of dollars, except per share amounts)		March 31	June 30	September 30	December 31
Net sales:	2003	$ 30,367	$37,045	$36,051	$ 32,466
	2002	24,392	21,872	20,156	21,669
Operating loss:	2003	$(12,607)	$ (1,780)	$ (1,462)	$ (4,055)
	2002	(340)	(246)	(851)	(6,093)
Net loss from continuing operations	2003	$(14,618)	$ (4,084)	$ (3,470)	$ (4,678)
	2002	(2,504)	(2,297)	(2,476)	(7,752)
Gain (loss) from discontinued operations	2003	$ (277)	$ 371	$ 213	$ 222
	2002	(3,099)	(4,581)	(1,463)	(3,365)
Net loss: (1)	2003	$(14,895)	$ (3,713)	$ (3,257)	$ (4,456)
	2002	(5,603)	(6,878)	(3,939)	(11,117)
Basic and diluted income (loss) from continuing operations per common share:	2003	$ (2.51)	$ (0.70)	$ (0.59)	$ (0.45)
	2002	(0.43)	(0.39)	(0.42)	(1.33)
Basic and diluted income (loss) per common share:	2003	$ (2.55)	$ (0.64)	$ (0.56)	$ (0.44)
	2002	(0.96)	(1.18)	(0.68)	(1.92)

(1) In the first quarter of 2003, the Company restated earnings from those originally issued to account for revenues from the Company's network service offering when the actual cash collections to be retained by the Company are finalized. The restatement had no effect on loss from discontinued operations or net loss per share from discontinued operations. The restatement increased the net loss for the first quarter ending March 31, 2003 by $11,972 and the net loss per share by $0.10. The restatement increased the net loss for the fourth quarter of 2002 by $3,505 and the net loss per share by $0.60. In the fourth quarter of 2003, the Company was discharged of obligations amounting to $1,141 owed to a network service provider. The discharge of this obligation is reported as interest and other income in the above summary for the three months ended December 31, 2003.

Note 21 – Subsequent Event

Subsequent to December 31, 2003, the Company received confirmation that certain indefeasible rights of usage ("IRUs") acquired by the Company have been reclaimed by the IRU consortium, which is the group that owns and operates the cable. As a result, the Company has been discharged of approximately $775 of obligations payable to the consortium existing at December 31, 2003. The Company expects to record the discharge of this obligation as other income for the three months ending March 31, 2004.

Subsequent to December 31, 2003, the Company has converted its preferred stock in BUI to shares of common stock. In a private placement, the Company sold 50% of the shares of common stock for approximately $1,600, which proceeds will be used to fund operations, capital expenditures and to improve working capital. The Company will record a gain of approximately $566 in the first quarter of 2004 relating to the sale of these shares. The Company intends to sell the remainder of these shares during 2004. These shares are shown as a current asset at December 31, 2003.

ACCERIS COMMUNICATIONS INC.
SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions (a)	Other	Balance at End of Period
Allowance for doubtful accounts:					
December 31, 2001	$ 101	$4,066	$(2,304)	—	$1,863
December 31, 2002	1,863	5,999(b)	(6,112)	(46)(c)	1,704
December 31, 2003	$1,704	$5,438	$(5,570)	$192(d)	$1,764

(a) Deductions represents allowance amounts written off as uncollectible and recoveries of previously reserved amounts.

(b) Amounts include charges and deductions related to continuing operations only.

(c) Other includes an increase of $1,019 for the beginning allowance acquired in the acquisition of RSL in December 2002 and a decrease of $1,065 for the net change in discontinued operations during the year which are not included in charged to costs and expenses or deductions.

(d) Amount relates to the stock purchase of Transpoint in July 2003, which was accounted for using the purchase method.

EXHIBIT E - PROPOSED TARIFF

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

LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

FURNISHED BY
ACCERIS COMMUNICATIONS CORP.
WITHIN THE STATE OF SOUTH DAKOTA

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Description

CHECK SHEET

The Title Page and pages listed below are inclusive and effective as of the date shown. Original and revised pages as named below contain all changes from the original tariff that are in effect on the date shown on each page.

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15	Original	45	Original	75	Original				
16	Original	46	Original	76	Original				
17	Original	47	Original	77	Original				
18	Original	48	Original	78	Original				
19	Original	49	Original	79	Original				
20	Original	50	Original	80	Original				
21	Original	51	Original	81	Original				
22	Original	52	Original	82	Original				
23	Original	53	Original	83	Original				
24	Original	54	Original	84	Original				
25	Original	55	Original	85	Original				
26	Original	56	Original	86	Original				
27	Original	57	Original	87	Original				
28	Original	58	Original	88	Original				
29	Original	59	Original	89	Original				
30	Original	60	Original	90	Original				

EXPLANATION OF SYMBOLS

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

(C) To signify changed regulation.

(D) To signify discontinued rate and regulation.

(I) To signify increased rate.

(M) To signify a move in the location of text.

(N) To signify new rate or regulation.

(R) To signify reduced rate.

(S) To signify reissued matter.
(T) To signify a change in text but no change in rate or regulation.

APPLICATION OF TARIFF

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

SECTION 1.0 - DEFINITIONS

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

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

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

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

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

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

Commission - South Dakota Public Utilities Commission.

Company or Carrier - Acceris Communications Corp., unless otherwise clearly indicated by the context.

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

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

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

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

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

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

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

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

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

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

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

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

LEC - Local Exchange Company

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

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

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

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

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

PBX - Private Branch Exchange

Premises - A building or buildings on contiguous property.

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

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

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

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

Telephone Company - Used throughout this tariff to mean Acceris Communications Corp. unless clearly indicated otherwise by the text.

TBD – To Be Determined.

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

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

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

SECTION 2.0 - RULES AND REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

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

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

2.1.2 Shortage of Equipment or Facilities

(A) The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control.

(B) The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

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

2.1.3 Terms and Conditions

(A) Service is provided on the basis of a minimum period of at least six months, 24 hours per day. For the purpose of computing charges in this tariff, a month is considered to have thirty (30) days.

(B) Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.

(C) Except as otherwise stated in the tariff, at the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party upon thirty (30) days written notice. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the service order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.

(D) Service may be terminated upon written notice to the Customer if:

(1) the Customer is using the service in violation of this tariff; or

(2) the Customer is using the service in violation of the law.

(E) This tariff shall be interpreted and governed by the laws of the State of South Dakota without regard for its choice of laws provision.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

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

2.1.3 Terms and Conditions, (cont'd.)

(F) Any Other Telephone Company may not interfere with the right of any person or entity to obtain service directly from the Company. No person or entity shall be required to make any payment, incur any penalty, monetary or otherwise, or purchase any services in order to have the right to obtain service directly from the Company.

(G) To the extent that either the Company or any Other Telephone Company exercises control over available cable pairs, conduit, duct space, raceways, or other facilities needed by the other to reach a person or entity, the party exercising such control shall make them available to the other on terms equivalent to those under which the Company makes similar facilities under its control available to its Customers. At the reasonable request of either party, the Company and the Other Telephone Company shall jointly attempt to obtain from the owner of the property access for the other party to serve a person or entity.

(H) The Company hereby reserves its rights to establish service packages specific to a particular Customer. These contracts may or may not be associated with volume and/or term discounts.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

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

2.1.4 Limitations on Liability

(A) Except as otherwise stated in this section, the liability of Carrier for damage arising out of the furnishing of its services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services shall be determined by South Dakota Statute Sections 49-13-1 and 49-13-1.1.

(B) Except for the extension of allowances to the Customer for interruptions in service in Section 2.7, Carrier shall not be liable to a Customer or third party for any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive damages, including, but not limited to, loss of revenue or profits, including but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service of any failure in or breakdown of facilities associated with the service except as determined pursuant to SDCL 49-13-1 and 49-13-1.1.

(C) The liability of Carrier for errors in billing that result in overpayment by the customer shall be limited to a credit equal to the dollar amount erroneously billed, or in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

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

2.1.4 Limitations on Liability (Cont'd.)

(D) The Company shall be indemnified and saved harmless by the Customer from and against all loss, liability, damage and expense, including reasonable counsel fees, due to:

(1) Any act or omission of: (a) the Customer, (b) any other entity furnishing service, equipment or facilities for use in conjunction with services or facilities provided by the Company; or (c) common carriers or warehousemen, except as contracted by the Company;

(2) Any delay or failure of performance or equipment due to causes beyond the Company's control, including but not limited to, acts of God, fires, floods, earthquakes, hurricanes, or other catastrophes; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against the Company; unavailability, failure or malfunction of equipment or facilities provided by the Customer or third parties; and any law, order, regulation or other action of any governing authority or agency thereof;

(3) Any unlawful or unauthorized use of the Company's facilities and services;

(4) Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the material transmitted by means of Company-provided facilities or services; or by means of the combination of company-provided facilities or services;

(5) Breach in the privacy or security of communications transmitted over the Company's facilities, which is not the result of the negligence of the Company;

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

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

2.1.4 Limitations on Liability (Cont'd.)

(D) (cont'd)

(6) Changes in any of the facilities, operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth in paragraph (A) of this Subsection 2.1.4.

(7) Defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof;

(8) Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected to Carrier's facilities;

(9) Any noncompletion of calls due to network busy conditions;

(10) Any calls not actually attempted to be completed during any period that service is unavailable;

(11) Breach in the privacy or security of communications transmitted over Carrier's facilities, which is not the result of the negligence of the Company;

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

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

2.1.4 Limitations on Liability (Cont'd.)

(E) The Company does not guarantee nor make any warranty with respect to installations provided for use in an explosive atmosphere.

(F) Failure by the Company to assert its rights pursuant to one provision of this tariff does not preclude the Company from asserting its rights under other provisions.

2.1.5 Notification of Service-Affecting Activities

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

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

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

2.1.6 Provision of Equipment and Facilities

(A) The Company shall use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer may not nor may the Customer permit others to rearrange, disconnect, remove, attempt to repair, or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.

(B) The Company may substitute, change or rearrange any equipment or facility at any time and from time to time, but shall not thereby alter the technical parameters of the service provided by the Customer.

(C) Equipment the Company provides or installs at the Customer Premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which the equipment is provided.

(D) Except as otherwise indicated, Customer provided station equipment at the Customer's premises for use in connection with the service shall be so constructed, maintained and operated as to work satisfactorily with the facilities of the Company.

(E) The Company shall not be responsible for the installation, operation, or maintenance of any Customer provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities. Subject to this responsibility, the Company shall not be responsible for:

(1) the through transmission of signals by Customer provided equipment or for the quality of, or defects in, such transmission; or

(2) the reception of signals by Customer-provided equipment; or

(3) network control signaling where such signaling is performed by Customer-provided network control signaling equipment.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

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

2.1.7 Non-Routine Installation

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

2.1.8 Special Construction

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

(A) where facilities are not presently available, and there is no other requirement for the facilities so constructed;

(B) of a type other than that which the Company would normally utilize in the furnishing of its services;

(C) over a route other than that which the Company would normally utilize in the furnishing of its services;

(D) in a quantity greater than that which the company would normally construct;

(E) on an expedited basis;

(F) on a temporary basis until permanent facilities are available;

(G) involving abnormal costs; or

(H) in advance of its normal construction.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

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

2.1.9 Ownership of Facilities

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

2.2 Prohibited Uses

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

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

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

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

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.3 Obligations of the Customer

2.3.1 General

The Customer shall be responsible for:

(A) the payment of all applicable charges pursuant to this tariff;

(B) damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;

(C) providing at no charge, as specified from time to time by the Company, any needed equipment, space and power to operate Company facilities and equipment installed on the premises of the Customer, and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;

(D) obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduit necessary for installation of fiber optic cable and associated equipment used to provide Communications Services to the Customer from the cable building entrance or property line to the location of the equipment space described in Section 2.3.1(C). Any and all costs associated with the obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company provided facilities, shall be borne entirely by, or may be charged by the Company, to the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.3 Obligations of the Customer

2.3.1 General (cont'd.)

(E) providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g., friable asbestos) prior to any construction or installation work;

(F) complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of Company facilities and equipment in an Customer premises or the rights-of-way for which Customer is responsible under Section 2.3.1(D); and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;

(G) not creating or allowing to be placed any liens or other encumbrances on the Company's equipment or facilities; and

(H) making Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.3 Obligations of the Customer (Cont'd.)

2.3.2 Liability of the Customer

(A) Carrier shall be indemnified, defended and held harmless by the Customer or end user from and against any and all claims, loss, demands, suits, expense, or other action or any liability whatsoever, including attorney fees, whether suffered, made, instituted, or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage, or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any Carrier or Customer equipment or facilities or service provided by Carrier.

(B) Carrier does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere. Carrier shall be indemnified, defended and held harmless by the Customer from and against any and all claims, loss, demands, suits, or other action, or any liability whatsoever, including attorney fees, whether suffered, made, instituted or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage, or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any equipment or facilities or the service.

(C) Notwithstanding any other provision of this tariff and pursuant to S.D. Codified Laws SS 49-13-1 and 49-13-1.1, any person claiming to be damaged by Carrier may either make complaint to the Commission or may bring suit on his own behalf for the recovery of damages in any court of competent jurisdiction in South Dakota, but no person may pursue both remedies at the same time.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.4 Customer Equipment and Channels

2.4.1 General

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

2.4.2 Station Equipment

(A) Terminal equipment of the user's premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the user. The user is responsible for the provision of wiring or cable to connect its terminal equipment to the Company MPOP.

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

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.4 Customer Equipment and Channels (Cont'd.)

2.4.3 Interconnection of Facilities

(A) Local Traffic Exchange provides the ability for another local exchange provider to terminate local traffic on the Company's network. In order to qualify for Local Traffic Exchange the call must: (a) be originated by an end user of a company that is authorized by the South Dakota Public Utilities Commission to provide local exchange service; (b) originate and terminate within a local calling area of the Company.

(B) Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Communications Services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

(C) Communications Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers which are applicable to such connections.

(D) Facilities furnished under this tariff may be connected to Customer provided terminal equipment in accordance with the provisions of this tariff. All such terminal equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all user-provided wiring shall be installed and maintained in compliance with those regulations.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.4 Customer Equipment and Channels (Cont'd.)

2.4.4 Inspections

(A) Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with the requirements set forth in Section 2.4.2(B) for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.

(B) If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.

(C) If harm to the Company's network, personnel or services is imminent, the Company reserves the right to shut down Customer's service immediately, with no prior notice required.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.5 Customer Deposits and Advance Payments

2.5.1 Advance Payments

The Company does not collect advance payments from Customers.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

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

2.5.2 Deposits

The Company does not require deposits from Customers.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.6 Payment Arrangements

2.6.1 Payment for Services

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

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

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

2.6.2 Billing and Collection of Charges

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

(A) Non-recurring charges are due and payable within thirty (30) days after the date the invoice is mailed to the Customer by the Company.

(B) The Company shall present invoices for recurring charges monthly to the Customer and recurring charges shall be due and payable within thirty (30) days after the date the invoice is mailed to the Customer by the Company. When billing is based upon Customer usage, usage charges will be billed monthly for the preceding billing period.

(C) When service does not begin on the first day of the month, or end of the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have thirty (30) days.

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.6 Payment Arrangements (Cont'd.)

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

(D) Billing of the Customer by the Company will begin on the Service Commencement Date, which is the day on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in this tariff or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

(E) If any portion of the payment is not received by the Company within 30 days of receipt of this bill, or if any portion of the payment is received by the Company in funds which are not immediately available upon presentment, then a late payment charge of 1.5% per month shall be due to the Company. A late payment charge is not applicable to subsequent rebilling of any amount to which a late payment charge has already been applied. Late payment charges are to be applied without discrimination.

(F) the Customer should notify the Company of any disputed items on an invoice within one hundred eighty (180) days of receipt of the invoice. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the South Dakota Public Utilities Commission in accordance with the Commission's rules and procedure. The address of the Company and the Commission is as follows:

Acceris Communications Corp.	South Dakota PUC
9775 Businesspark Avenue	State Capitol Building
San Diego, California 92131	500 East Capitol Ave.
(800) 569-8700	Pierre, South Dakota 57501
	800-332-1782

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

SECTION 2.0 - RULES AND REGULATIONS (CONT'D)

2.6 Payment Arrangements (Cont'd.)

2.6.3 Discontinuance of Service for Cause

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

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

(A) Upon nonpayment of any amounts owing to the Company, the Company may discontinue or suspend service without incurring any liability. No basic residential service shall be disconnected for nonpayment until at lease 29 days from the date of the bill and only following proper written notification. Non-payment of disputed charges by Customer does not constitute discontinuance or suspension of service. Disputed charges will be due after Customer and Company resolve dispute.

(B) Upon violation of any of the other material terms or conditions for furnishing service the Company may, discontinue or suspend service without incurring any liability if such violation continues during that period.

(C) Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.

(D) Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law, the Company may immediately discontinue or suspend service without incurring any liability.

(E) Upon any governmental prohibition or governmental required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.

SECTION 2.0 - RULES AND REGULATIONS, (CONTINUED)

2.6 Payment Arrangements, (Continued)

2.6.3 Discontinuance of Service for Cause

(F) Without notice in the event of fraudulent use of the Company's network. The Customer will be liable for all related costs. The Customer will also be responsible for payment of any reconnection charges.

(G) Without notice in the event of Customer use of equipment or services in such a manner as to adversely affect the Company's service to others.

(H) Without notice in the event of tampering with the equipment or services furnished by the Company.

SECTION 2.0 - RULES AND REGULATIONS, (CONTINUED)

2.6 Payment Arrangements, (Continued)

2.6.4 Notice to Company for Cancellation of Service

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

2.6.5 Cancellation of Application for Service

(A) Where the Company permits the Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.

(B) Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs the Company incurred, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service begun.

(C) Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred, less net salvage, may apply. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.

(D) The special charges described in 2.6.5(A) through 2.6.5(C) will be calculated and applied on a case-by-case basis.

SECTION 2.0 - RULES AND REGULATIONS, (CONTINUED)

2.6 Payment Arrangements, (Continued)

2.6.6 Changes in Services Requested

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

2.6.7 Bad Check Charge

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

2.7 Allowances for Interruptions in Service

2.7.1 General

(A) A credit allowance will be given when service is interrupted, except as specified in Section 2.7.2 following. A service is interrupted when it becomes inoperative to the Customer, e.g., the Customer is unable to transmit or receive, because of a failure of a component furnished by the Company under this tariff.

(B) An interruption period begins when the Customer reports a service, facility or circuit to be inoperative and, if necessary, releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative.

SECTION 2.0 - RULES AND REGULATIONS, (CONTINUED)

2.7 Allowances for Interruptions in Service, (Continued)

2.7.1 General (Continued)

(C) If the Customer reports a service, facility or circuit to be interrupted but declines to release it for testing and repair, or refuses access to its premises for test and repair by the Company, the service, facility or circuit is considered to be impaired but not interrupted. No credit allowances will be made for a service, facility or circuit considered by the Company to be impaired.

(D) The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.

2.7.2 Limitations of Allowances

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

(A) Due to the negligence of or noncompliance with the provisions of this tariff by any person or entity other than the Company, including but not limited to the Customer;

(B) Due to the failure of power, equipment, systems, connections or services not provided by the Company;

(C) Due to circumstances or causes beyond the reasonable control of the Company;

(D) During any period in which the Company is not given full and free access to its facilities and equipment for the purposes of investigating and correcting interruptions;

SECTION 2.0 - RULES AND REGULATIONS, (CONTINUED)

2.7 Allowances for Interruptions in Service, (Continued)

2.7.2 Limitations of Allowances

(E) A service will not be deemed to be interrupted if a Customer continues voluntarily make use of the service. If the service is interrupted, the Customer can get a service credit, use another means of communications provided by the Company (pursuant to Section 2.7.3), or utilize another service provider:

(F) During any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;

(G) That occurs or continues due to the Customer's failure to authorize replacement of any element of special construction.

2.7.3 Use of Another Means of Communications

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

SECTION 2.0 - RULES AND REGULATIONS, (CONTINUED)

2.7 Allowances for Interruption in Service, (Continued)

2.7.4 Application of Credits for Interruptions in Service

(A) Credits for interruptions in service that is provided and billed on a flat rate basis for a minimum period of at least one month, beginning on the date that billing becomes effective, shall in no event exceed an amount equivalent to the proportionate charge to the Customer for the period of service during which the event that gave rise to the claim for a credit occurred. A credit allowance is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.

(B) For calculating credit allowances, every month is considered to have thirty (30) days.

(C) A credit allowance will be given for interruption of thirty (30) minutes or more. Two or more interruptions of fifteen (15) minutes or more during any one 24-hour period shall be combined into one cumulative interruption.

SECTION 2.0 - RULES AND REGULATIONS, (CONTINUED)

2.7 Allowances for Interruption in Service, (Continued)

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

(D) Interruptions of 24 Hours or Less

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

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

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

(F) Interruptions Over 72 Hours

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

SECTION 2.0 - RULES AND REGULATIONS, (CONTINUED)

2.7 Allowances for Interruption in Service, (Continued)

2.7.5 Limitations on Allowances

No credit allowance will be made for:

(A) interruptions due to the negligence of or noncompliance with the provisions of this tariff by the Customer, authorized user or joint user;

(B) interruptions due to the negligence of any person other than the Company, including but not limited to the Customer;

(C) interruptions of service during any period in which the Company is not given full access to its facilities and equipment for the purpose of investigating and correcting interruptions;

(D) interruptions of service during a period in which the Customer continues to use the service on an impaired basis;

(E) interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;

(F) interruption of service due to circumstances or causes beyond the reasonable control of Company; and

(G) that occur or continue due to the Customer's failure to authorize replacement of any element of special construction.

2.7.6 Cancellation For Service Interruption

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

SECTION 2.0 - RULES AND REGULATIONS, (CONTINUED)

2.8 Cancellation of Service/Termination Liability

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

2.8.1 Termination Liability

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

(A) all unpaid non-recurring charges reasonably expended by Company to establish service to Customer, plus;

(B) any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by Company on behalf of Customer, plus;

(C) all recurring charges specified in the applicable Service Order for the balance of the then current term discounted at the prime rate announced in the *Wall Street Journal* on the third business day following the date of cancellation;

(D) minus a reasonable allowance for costs avoided by the Company as a direct result of Customer's cancellation.

SECTION 2.0 - RULES AND REGULATIONS, (CONTINUED)

2.9 Reserved for Future Use

2.10 Use of Customer's Service by Others

2.10.1 Resale and Sharing

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

2.10.2 Reserved for Future Use

2.11 Transfers and Assignments

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

SECTION 2.0 - RULES AND REGULATIONS, (CONTINUED)

2.12 Notices and Communications

2.12.2 The Customer shall designate on the service order an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.

2.12.3 The Company shall designate on the service order an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.

2.12.4 Except as otherwise stated in this tariff, all notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.

2.12.5 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

SECTION 3.0 - SERVICE AREAS

3.1 Exchange Service Areas

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

3.2 Rate Groups

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

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

SECTION 3.0 - SERVICE AREAS (CONT'D)

3.3 Extended Area Service Additive

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

3.3.1 Flat Rate Service Additive

To Be Determined

3.3.2 Message Rate Service Additive

To Be Determined

SECTION 4.0 – SERVICE CHARGES AND SURCHARGES

4.1 Service Order and Change Charges

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

	Residence	Business
Line Connection Charge		
First Line	TBD	TBD
Each Additional Line	TBD	TBD
Line Change Charge		
First Line	TBD	TBD
Each Additional Line	TBD	TBD

4.2 Maintenance Visit Charges

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

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

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

Duration of time, per technician	Residential	Business
Initial 15 minute increment	TBD	TBD
Each Additional 15 minute increment	TBD	TBD

4.3 Restoration of Service

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

	Residence	Business
Per occasion	TBD	TBD

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS

5.1 General

5.1.1 Services Offered

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

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

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

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

5.1.2 Application of Rates and Charges

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

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

5.1 General (Continued)

5.1.3 Emergency Services Calling Plan

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

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

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

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

SECTION 5.0 – NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.2 **Call Timing for Usage Sensitive Services**

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

5.2.1 Calls are measured in durational increments identified for each service. All calls, which are fractions of a measurement increment, are rounded-up to the next whole unit.

5.2.2 Timing on completed calls begins when the call is answered by the called party. Answering is determined by hardware answer supervision in all cases where this signaling is provided by the terminating local carrier and any intermediate carrier(s).

5.2.3 Timing terminates on all calls when the calling party hangs up or the Company's network receives an off-hook signal from the terminating carrier.

5.2.4 Calls originating in one time period and terminating in another will be billed in proportion to the rates in effect during different segments of the call.

5.2.5 All times refer to local time.

SECTION 5. 0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.3 Distance Calculations

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

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

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

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

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

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

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

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

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

5.3.3 The formula for distance calculations is:

$$(V_1 - V_2)^2 + (H_1 - H_2)^2 \qquad 10$$

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.4 Rate Periods for Time of Day Sensitive Services

5.4.1 For time of day, usage sensitive services, the following rate periods apply unless otherwise specified in this tariff.

	MON	TUES	WED	THUR	FRI	SAT	SUN
8:00 AM TO 5:00 PM*	DAYTIME RATE PERIOD						
5:00 PM TO 11:00 PM*	EVENING RATE PERIOD						EVE
11:00 PM TO 8:00 AM*	NIGHT/WEEKEND RATE PERIOD						

*Up to but not including.

5.4.2 Calls are billed based on the rate in effect for the actual time period(s) during which the call occurs. Calls that cross rate period boundaries are billed the rates in effect in that boundary for each portion of the call, based on the time of day at the Customer location.

5.4.3 For services subject to holiday discounts, the following are Company recognized national holidays, determined at the location of the calling station. The evening rate is used on national holidays, unless a lower rate normally would apply.

New Year's Day	January 1
Memorial Day	As Federally Observed
Independence Day	July 4
Thanksgiving Day	As Federally Observed
Christmas Day	December 25

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.5 Standard Residence Line

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

5.6 Standard Business Line

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

5.7 PBX Trunk Service

Basic PBX Trunk Service provides a Customer with a single, voice-grade telephonic communications channel, which can be used to place or receive one call at a time. Basic Trunks are provided for connection of Customer-provided private branch exchanges (PBX) to the public switched telecommunications network. Each Basic PBX Trunk is provided with touch-tone signaling and may be configured into a hunt group at no additional charge with other Company-provided Basic PBX Trunks. The signal is an analog signal at the DS0 level.

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.8 Reserved for Future Use

5.9 Direct Inward Dialing (DID) Service

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

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.10 **Reserved for Future Use**

5.11 **Optional Calling Features**

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

5.11.1 **Features Descriptions**

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

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

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

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

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

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 **Optional Calling Features, (continued)**

5.11.1 **Feature Descriptions, (continued)**

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

(E) **Call Forwarding Variable:** Permits the end-user to automatically forward (transfer) all incoming calls to another telephone number, and to restore it to normal operation at their discretion. The end-user must dial an activation code from his/her exchange line along with the forward-to number in order to turn the feature on. A separate code is dialed by the end-user to deactivate the feature.

(F) **Call Forwarding Variable, Remote Access:** Permits the end-user to automatically forward (transfer) all incoming calls to another telephone number, and to restore it to normal operation at their discretion. The end-user must dial an activation code along with the forward-to number in order to turn the feature on. A separate code is dialed by the end-user to deactivate the feature. Feature activation may be performed from the end-user's exchange line or remotely from some other line. Remote access requires the end-user to (1) dial a special access number 2) enter their seven-digit telephone number and 3) enter a personal identification number prior to forwarding their calls.

(G) **Call Forwarding Don't Answer, Basic:** Permits the forwarding of incoming calls when the end-user's line remains unanswered after a pre-designated ringing interval. The ringing interval before forwarding and the forward-to number are fixed by the service order.

(H) **Call Forwarding Don't Answer w/Ring Control:** Permits the forwarding of incoming calls when the end-user's line remains unanswered after a pre-designated ringing interval. The forward-to number is fixed by the service order. However, the end-user has the ability to change the time interval before forwarding occurs at his/her discretion.

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

(I) **Call Forwarding Don't Answer w/Customer Control:** Permits the forwarding of incoming calls when the end-user's line remains unanswered after a pre-designated ringing interval. The ringing interval before forwarding and the forward-to number are fixed by the service order. However, the end-user has the ability to turn the feature on or off at his/her discretion.

(J) **Call Forwarding Busy Line, Basic:** Permits the forwarding of incoming calls when the end-user's line is busy. The forwarded number is fixed by the end-user service order.

(K) **Call Forwarding Busy Line w/Customer Control:** Permits the forwarding of incoming calls when the end-user's line is busy. The forwarded number is fixed by the end-user service order. However, the end-user has the ability to turn the feature on or off at his/her discretion.

(L) **Call Waiting - Basic:** Call Waiting provides a tone signal to indicate to a Customer already engaged in a telephone call that a second caller is attempting to dial in. It permits the Customer to place the first call on hold, answer the second call and then alternate between both callers. Cancel Call Waiting is provided with the feature and allows a Call Waiting end-user to disable the Call Waiting feature for the duration of a single outgoing telephone call. Cancel Call Waiting is activate by dialing a special code prior to placing a call, and is automatically deactivated when the Customer disconnects from the call.

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

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

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

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

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

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

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

(P) **Caller ID - Deluxe:** Permits the end-user to view a Directory Name and Directory Number of the calling party on incoming telephone calls. Information is displayed on a specialized CPE not provided by the Company. The feature also provides the date and time of each incoming call. It is the responsibility of the Customer to provide the necessary CPE. In some situations, the calling party's city and state may be displayed rather than a Directory Name, depending on available call data.

(Q) **Anonymous Call Rejection:** Permits the end-user to automatically reject incoming calls when the call originates from a telephone number which has blocked delivery of its calling number (see Calling Number Delivery Blocking). When active, calls from private numbers will be routed to a special announcement then terminated. The feature may be turned on or off by the end-user by dialing the appropriate feature control code. Anonymous Call Rejection is offered as a stand-alone feature or as an add-on to Caller ID Deluxe.

(R) **Call Block:** Allows the end-user to automatically block incoming calls from up to six end-user pre-selected telephone numbers programmed into the feature's screening list. Callers whose numbers have been blocked will hear a recorded message stating that their call has been blocked. The end-user controls when the feature is active, and can add or remove calling numbers from the feature's screening list.

(S) **Call Return:** Allows the Customer to return a call to the last incoming call whether answered or not. Upon activation, it will redial the number automatically and continue to check the number every 45 seconds for up to 30 minutes if the number is busy. The Customer is alerted with a distinctive ringing pattern when the busy number is free. When the Customer answers the ring, the call is then completed. The calling party's number will not be delivered or announced to the call recipient under any circumstances.

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

(T) **Call Selector:** Allows a Customer to assign a maximum of 15 telephone numbers to a special list. The Customer will hear a distinctive ring when calls are received from telephone numbers on that list.

(U) **Call Tracing:** Allows the tracing of nuisance calls to a specified telephone number suspected of originating from a given local office. The tracing is activated upon entering the specified dial code. The originating telephone number, outgoing trunk number or terminating number, and the time and date are generated for every call to the specified telephone number can then be identified.

(V) **Calling Number Delivery Blocking:** Prevents the delivery, display and announcement of the end-user's Directory Number and Directory Name on all calls dialed from an exchange service equipped with this option. When active, the end-user's telephone name and number will not appear on the called party's Caller ID CPE or be disclosed in another way. The feature is available on a per call or per line basis. With per call Calling Number Delivery Blocking, it is necessary for the end-user to dial an activation code prior to placing the call. With the per line version of the feature, all calls are placed with the end-user's number blocked. Per line end-users must dial an activation code prior to utilization.

(W) **Message Waiting Indication:** Provides the end-user with an audible (stutter dial tone) or visual (lamp or other CPE display) indication that messages are waiting to be retrieved. Message Waiting Indication can only be activated/deactivated by a voice mailbox or other voice messaging service provided by the Company or third party. It is the responsibility of the Customer to subscribe to a compatible voice messaging service. Visual Message Waiting Indication requires specialized CPE not provided by the Company. It is the responsibility of the Customer to provide the necessary CPE.

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

(X) **Multiple Directory Number Distinctive Ringing:** This feature allows an end user to determine the source of an incoming call from a distinctive ring. The end user may have up to two additional numbers assigned to a single line (i.e. Distinctive Ringing - First Number and Distinctive Ringing - Second Number). The designated primary number will receive a normal ringing pattern; other numbers will receive distinctive ringing patterns. The pattern is based on the telephone number that the calling party dials.

(Y) **Preferred Call Forwarding:** Permits the end-user to automatically forward to another number calls received from up to six end-user pre-selected telephone numbers programmed into the features screening list. The end-user controls when the feature is active, the forward-to-number and can add or remove calling numbers from the feature's screening list.

(Z) **Repeat Dialing:** Permits the end-user to have calls automatically redialed when the first attempt reaches a busy number. The line is checked every 45 seconds for up to 30 minutes and alerts the Customer with a distinctive ringing pattern when the busy number and the Customer's line are free. The Customer can continue to make and receive calls while the feature is activated. The following types of calls cannot be reached using Repeat Dialing:

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

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.11 Optional Calling Features, (continued)

5.11.1 Feature Descriptions, (continued)

(AA) **Speed Calling:** Permits the Customer to place calls to other telephone numbers by dialing a one or two digit code rather than the complete telephone number. The feature is available as either an eight (8) code list or a thirty (30) code list. Code lists may include local and/or toll telephone numbers. The Customer has the ability to add or remove telephone numbers and codes to/from the speed calling list without assistance from the Company.

(AB) **Three Way Calling:** Permits the end-user to add a third party to an established connection. When the third party answers, a two-way conversation can be held before adding the original party for a three-way conference. The end-user initiating the conference controls the call and may disconnect the third party to reestablish the original connection or establish a connection to a different third party. The feature may be used on both outgoing and incoming.

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.12 Listing Services

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

5.12.1 Non-Published Service

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

5.12.2 Non-Listed Service

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

5.13 Directory Assistance

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

SECTION 5.0 - NETWORK SERVICES DESCRIPTIONS (CONTINUED)

5.14 Reserved for Future Use

5.15 Reserved for Future Use

5.16 Miscellaneous Services

5.16.1 Main Number Retention

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

5.16.2 Pay Per Call Blocking/Unblocking

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

5.16.3 Vanity Number Service

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

5.16.4 Presubscription Services

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

SECTION 6.0 – RESERVED FOR FUTURE USE

6.1 Reserved for Future Use

SECTION 7.0 - LOCAL EXCHANGE SERVICES PRICE LIST

7.1 General

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

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

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

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

7.2 **Standard Residence Local Exchange Service**

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

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

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

SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.2 Standard Residence Local Exchange Service (Continued)

7.2.1 Monthly Recurring Charges

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

TO BE DETERMINED

SECTION 7.0 - LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.2 Standard Residence Local Exchange Service (Continued)

7.2.2 Other Monthly Recurring Charges

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

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

To Be Determined

7.2.3 Usage Sensitive Charges and Allowances

(A) Flat Rate Service

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

SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.2 Standard Residence Local Exchange Service, (Continued)

7.2.3 Usage Sensitive Charges and Allowances, (Continued)

(B) Message Service

Customers subscribing to Message Service will receive a monthly usage allowance of 30 outgoing calls. This allowance is applied to local calls placed from the Customer's line. Local usage in excess of the allowance will be billed in arrears. Local usage is billed on a per call basis.

Per Local Call	TBD

(1) Calls to Expanded Service Areas

The following per minute rates apply to calls to points in the Expanded Service Areas as defined in the General Subscriber Service Tariff, Section A3, presently on file with the SD. PUC.

TO BE DETERMINED

SECTION 7.0 - LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.2 Standard Residence Local Exchange Service, (Continued)

7.2.4 Non-Recurring Charges

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

Non-recurring charges for installation of Residential lines are:

First Line	TBD
Each Additional Line(1)	TBD

NOTES:

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

SECTION 7.0 - LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.3 Standard Business Local Exchange Service

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

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

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

SECTION 7.0 - LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.3 Standard Business Local Exchange Service, (Continued)

7.3.1 Monthly Recurring Charges

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

TO BE DETERMINED

SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.3 Standard Business Local Exchange Service, (Continued)

7.3.2 Other Monthly Recurring Charges

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

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

TO BE DETERMINED

SECTION 7.0 - LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.3 Standard Business Local Exchange Service, (Continued)

7.3.3 Usage Sensitive Charges and Allowances

(A) Flat Rate Service

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

(B) Message Service

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

Per Local Call	TBD

(1) Calls to Expanded Service Areas

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

TO BE DETERMINED

SECTION 7.0 - LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.3 Standard Business Local Exchange Service, (Continued)

7.3.4 Non-Recurring Charges

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

Non-recurring charges for installation of Residential lines are:

First Line	TBD
Each Additional Line(1)	TBD

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

SECTION 7.0 - LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.5 Residence and Business PBX Trunk Service

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

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

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

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

7.5.1 Flat Rate Service

To Be Determined

7.5.2 Message Rate Service

To Be Determined

SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.6 Direct Inward Dialing (DID) Service

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

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

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

SECTION 7.0 - LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.7 **Reserved For Future Use**

7.8 **Optional Calling Features**

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

7.8.1 **Features Offered on a Usage Sensitive Basis**

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

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

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

SECTION 7.0 - LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.8 Optional Calling Features, (Continued)

7.8.2 Features Offered on a Monthly Basis

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

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

SECTION 7.0 – LOCAL EXCHANGE SERVICES PRICE LIST (CONTINUED)

7.8 Optional Calling Features, (Continued)

7.8.2 Features Offered on a Monthly Basis

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

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings

8.1.1 General

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

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

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

SECTION 8.0 – DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Continued)

8.1.2 Composition of Listings

(A) Names

The following names may be included in business service listings:

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

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Continued)

8.1.2 Composition of Listings, (Continued)

(B) Designation

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

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

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

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

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Continued)

8.1.2 Composition of Listings, (Continued)

(C) Address

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

(D) **Telephone Number**

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

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

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Continued)

8.1.3 Types of Listings

(A) Standard Listing

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

(B) Indented Listing

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

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

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

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Continued)

8.1.3 Types of Listings, (Continued)

(C) Alternate Telephone Number Listing and Night Listing

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

If no answer call (telephone number)
Night calls (telephone number)
Night calls after ___PM (telephone number)
Nights, Sundays and holidays (telephone number)
5PM to 9AM weekdays, Saturday until 9AM, Monday and holidays (telephone number)

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

(D) Duplicate Listing

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

(E) Reference Listing

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

(F) Cross Reference Listing

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

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.1 Directory Listings, (Cont'd.)

8.1.4 Free Listings

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

8.1.5 Rates for Additional Listings - Business Customers

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

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

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.2 Non-Published Service

8.2.1 General

Non-published service means that the Customer's telephone number is not listed in the directory, not does it appear in the Company's Directory Assistance Records.

8.2.2 Regulations

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

The Company will complete calls to a non-published number only when the caller dials direct or gives the operator number. No exceptions will be made, even if the caller says it is an emergency.

When the Company agrees to keep a number unlisted, it does so without any obligation. Except for cases of negligence or willful misconduct, the Company is not liable for any damages that might arise from publishing a non-published number in the directory or disclosing it to some.

8.2.3 Rates and Charges

There is a monthly charge for each non-published service. This charge does not apply is the Customer has other listed service at the same location; if the Customer lives in a hotel, boarding house or club with listed service; or if the service is installed for a temporary period.

Non-published service charge, per month	TBD

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.3 Non-Listed Service

8.3.1 General

Non-listed service means that the Customer's telephone number is not listed in the directory, but does it appear in the Company's Directory Assistance Records.

8.3.2 Regulations

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

The Company will complete calls to a non-listed number.

When the Company agrees to keep a number unlisted, it does so without any obligation. Except for cases of negligence or willful misconduct, the Company is not liable for any damages that might arise from publishing a non-listed number in the directory or disclosing it to some.

8.3.3 Rates and Charges

There is a monthly charge for each non-listed service. This charge applies if the Customer has other listed service at the same location; if the Customer lives in a hotel, boarding house or club with listed service; or in the service is installed for a temporary period.

Non-listed service charge, per month:	TBD

SECTION 8.0 - DIRECTORY ASSISTANCE AND LISTING SERVICES

8.4 Directory Assistance Services

8.4.1 Directory Assistance

A Directory Assistance charge applies per local directory assistance call. The Customer may make two (2) requests for a telephone number per call. The Directory Assistance Charge applies regardless of whether the Directory Assistance operator is able to supply the requested number. No charge applies for the first call per month per residence line.

Each Local Directory Assistance Call	TBD

SECTION 9.0 - RESERVED FOR FUTURE USE

9.1 **Reserved For Future Use**

SECTION 10.0 - RESERVED FOR FUTURE USE

10.1 Reserved For Future Use

SECTION 11.0 - MISCELLANEOUS SERVICES

11.1 Carrier Presubscription

11.1.1 General

Carrier Presubscription is a procedure whereby a Customer designates to the Company the carrier which the Customer wishes to be the carrier of choice for intraLATA and interLATA toll calls, Such calls are automatically directed to the designated carrier, without the need to use carrier access codes or additional dialing to direct the call to the designated carrier. Presubscription does not prevent a Customer who has presubscribed to an IntraLATA or InterLATA toll carrier from using carrier access codes or additional dialing to direct calls to an alternative long distance carrier on a per call basis.

11.1.2 Presubscription Options - Customers may select the same carrier or separate carriers for intraLATA and interLATA long distance. The following options for long distance Presubscription are available:

Option A: Customer select the Company as the presubscribed carrier for IntraLATA and InterLATA toll calls subject to presubscription.

Option B: Customer may select the Company as the presubscribed carrier for IntraLATA calls subject to presubscription and some other carrier as the presubscribed carrier for interLATA toll calls subject to presubscription.

Option C: Customer may select a carrier other than the Company for intraLATA toll calls subject to presubscription and the Company for interLATA toll calls subject to presubscription.

Option D: Customer may select the carrier other than the Company for both intraLATA and interLATA toll calls subject to presubscription.

Option E: Customer may select two different carriers, neither being the Company for intraLATA and interLATA toll calls. One carrier to be the Customers' primary intraLATA interexchange carrier. The other carrier to be the Customer's primary interLATA interexchange carrier.

Option F: Customer may select a carrier other than the Company for no presubscribed carrier for intraLATA toll calls subject to presubscription which will require the Customer to dial a carrier access code to route all intraLATA toll calls to the carrier of choice for each call.

SECTION 11.0 - MISCELLANEOUS SERVICES (CONTINUED)

11.1 Carrier Presubscription, (Continued)

11.1.3 Rules and Regulations

Customers of record will retain their primary interexchange carrier(s) until they request that their dialing arrangements be changed.

Customers of record or new Customers may select either Options A, B, C, D, E or F for intraLATA Presubscription.

Customers may change their selected Option and/or presubscribed toll carrier at any time subject to charges specified in 11.4.5 below:

11.1.4 Presubscription Procedures

A new Customer will be asked to select intraLATA and interLATA toll carriers at the time the Customer places an order to establish local exchange service with the Company. The Company will process the Customer's order for service. All new Customers initial requests for intraLATA toll service presubscription shall be provided free of charge.

If a new Customer is unable to make selection at the time the new Customer places an order to establish local exchange service, the Company will read a random listing of all available intraLATA and interLATA carriers to aid the Customer in selection. If selection is still not possible, the Company will inform the Customer that he/she will be given 90 calendar days in which to inform the Company of his/her choice for primary toll carrier(s) free of charge. Until the Customer informs the Company of his/her choice of primary toll carrier, the Customer will not have access to long distance services on a presubscribed basis, but rather will be required to dial a carrier access code to route all toll calls to the carrier(s) of choice. Customers who inform the Company of a choice for toll carrier presubscription within the 90-day period will not be assessed a service charge for the initial Customer request.

Customers of record may initiate an intraLATA or interLATA presubscription change at any time, subject to the charges specified in 11.4.5 below. If a Customer of record inquires of the Company of the carriers available for toll presubscription, the Company will read a random listing of all available intraLATA carriers to aid the Customer in selection.

SECTION 11.0 – MISCELLANEOUS SERVICES (CONTINUED)

11.1 Carrier Presubscription, (Continued)

11.1.5 Presubscription Charges

(A) Application of Charges

After a Customer's initial selection for a presubscribed toll carrier and as detailed in Paragraph 11.1.4 above, for any change thereafter, a Presubscription Change Charge, as set forth below will apply. Customers who request a change in intraLATA and interLATA carriers with the same order will be assessed a single charge per line.

(B) Nonrecurring Charges

Per business or residence line, trunk, or port

Initial Line, or Trunk or Port	TBD
Additional Line, Trunk or Port	TBD

SECTION 12.0 - PROMOTIONAL OFFERINGS

12.1 Special Promotions

The Company may from time to time engage in special promotional trial service offerings of limited duration (not to exceed ninety days on a per Customer basis for non-optional, recurring charges) designed to attract new subscribers or to increase subscriber awareness of a particular tariff offering. Requests for promotional offerings will be presented to the Commission for its review in accordance with rules and regulations established by the Commission, and will be included in the Carrier's tariff as an addendum to the Carrier's price lists.

12.2 Discounts

The Company may, from time to time as reflected in the price list, offer discounts based on monthly volume (or, when appropriate, "monthly revenue commitment" and/or "time of day" may also be included).

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of June 10, 2004 through June 16, 2004

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this report. Phone: 605-773-3201

NATURAL GAS

NG04-005 In the Matter of the Filing by Montana-Dakota Utilities Co. for Approval of Tariff Revisions.

Application by Montana-Dakota Utilities Co. for approval of tariff revisions correcting inadvertent errors on tariff sheets submitted in Docket NG02-011. The two tariff sheets proposed to be revised relate to Optional Seasonal Gas Service Rate 72 and the Distribution Delivery Stabilization Mechanism Rate 87.

Staff Analyst: Dave Jacobson
Staff Attorney: Karen Cremer
Date Filed: 06/11/04
Intervention Deadline: 07/02/04

TELECOMMUNICATIONS

TC04-102 In the Matter of the Application of Acceris Communications Corp. for a Certificate of Authority to Provide Local Exchange Services in South Dakota.

On June 11, 2004, Acceris Communications Corp. (Acceris) filed an application for a Certificate of Authority to provide competitive local exchange services in South Dakota. Acceris intends to provide services through facilities of incumbent local exchange carriers, as well as unbundled network elements. Acceris seeks authority to resell and provide facilities-based/UNE-P local exchange services throughout the State of South Dakota in the areas served by any LECs in South Dakota that are not eligible for a small or rural carrier exemption pursuant to Section 251 (f)(1) of the Federal Act.

Staff Analyst: Michele Farris
Staff Attorney: Karen Cremer
Date Filed: 06/11/04
Intervention Deadline: 07/02/04

TC04-103 In the Matter of the Application of DakotaComm, LLC for a Certificate of Authority to Provide Interexchange Telecommunications Services and Local Exchange Services in South Dakota.

On June 16, 2004, DakotaComm, LLC (DakotaComm) filed an application for a Certificate of Authority to provide telecommunication services in South Dakota. DakotaComm intends to provide local exchange services, intraLATA services and interLATA services through a combination of reseller and facilities-based provisioning. Initially, telecommunication services will be offered to residents and businesses located in the Qwest exchange of Vermillion, South Dakota.

Staff Analyst: Michele Farris
Staff Attorney: Karen Cremer
Date Filed: 06/16/04
Intervention Deadline: 07/02/04

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF ACCERIS COMMUNICATIONS CORP. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA	)))))	**ORDER GRANTING CERTIFICATE OF AUTHORITY** **TC04-102**

On June 11, 2004, the Public Utilities Commission (Commission) received an application for a certificate of authority from Acceris Communications Corp. (Acceris).

Acceris proposes to offer resold and facilities-based/UNE-P local exchange services within South Dakota. A proposed tariff was filed by Acceris.

On June 17, 2004, the Commission electronically transmitted notice of the filing and the intervention deadline of July 2, 2004, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled July 20, 2004, meeting, the Commission considered Acceris' request for a certificate of authority. Commission Staff recommended granting a certificate of authority, with an effective date of August 11, 2004, subject to rural safeguards, and subject to the condition that Acceris not offer any prepaid services (including prepaid calling cards) and not accept or require any deposits or advance payments (including monthly service charge) without prior approval of the Commission. Commission Staff further recommended a waiver of ARSD 20:10:32:03(11).

The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-31, specifically 49-31-69 and ARSD 20:10:32:03. The Commission finds that Acceris has met the legal requirements established for the granting of a certificate of authority. Acceris has, in accordance with SDCL 49-31-71, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to waive subparagraph (11) of ARSD 20:10:32:03.

The Commission approves Acceris' application for a certificate of authority, subject to rural safeguards, and subject to the condition that Acceris not offer any prepaid services (including prepaid calling cards) and not accept or require any deposits or advance payments (including monthly service charge) without prior approval of the Commission. The certificate of authority for Acceris shall authorize it to offer local exchange services in South Dakota, except in those areas served by a rural telephone company. In the future, should Acceris choose to provide local exchange services statewide, with respect to rural telephone companies, Acceris will have to come before the Commission in another proceeding before being able to provide local service in that rural service area pursuant to 47 U.S.C. § 253(f) which allows the Commission to require a company that seeks to provide service in a rural service area to meet the requirements in 47 U.S.C. § 214(e)(1) for designation as an eligible telecommunications carrier. In addition, the granting of statewide certification will not affect the exemptions, suspensions, and modifications for rural telephone companies found in 47 U.S.C. § 251(f). It is therefore

ORDERED, that Acceris' application for a certificate of authority to provide local exchange services is granted, effective August 11, 2004, subject to the condition that Acceris not offer any prepaid services (including prepaid calling cards) and not accept or require any deposits or advance payments (including monthly service charge) without prior approval of the Commission; and it is

FURTHER ORDERED, that Acceris shall file informational copies of tariff changes with the Commission as the changes occur; and it is

FURTHER ORDERED, that the Commission shall authorize Acceris to offer its local exchange services in South Dakota, except in those areas served by a rural telephone company; and it is

FURTHER ORDERED, that the Commission waives subparagraph (11) of ARSD 20:10:32:03.

Dated at Pierre, South Dakota, this 27th day of July, 2004.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 7/28/04

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

Robert K. Sahr

ROBERT K. SAHR, Chairman

Gary Hanson

GARY HANSON, Commissioner

James A. Burg

JAMES A. BURG, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted effective August 11, 2004
Docket No. TC04-102

This is to certify that

ACCERIS COMMUNICATIONS CORP.

is authorized to provide local exchange services in nonrural areas in South Dakota, subject to the condition that it not offer any prepaid services (including prepaid calling cards) and not accept or require any deposits or advance payments (including monthly service charge) without prior approval of the Commission.

This certificate is issued in accordance with SDCL 49-31-69 and ARSD 20:10:32:03, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 27th day of July, 2004.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

ROBERT K. SAHR, Chairman

GARY HANSON, Commissioner

JAMES A. BURG, Commissioner