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TELEMONDE INC
Form 10-K
April 19, 2002

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

FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the Fiscal Year Ended December 31, 2001

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

For the transition period from _____ to _____

Commission file number: 000-28113

TELEMONDE, INC.
(Exact name of registrant as specified in its charter)

| | |
|------------------|------------------------|
| Delaware | 62-1795931 |
| (State or other | (IRS Employer |
| jurisdiction of | Identification Number) |
| incorporation or | |
| organization) | |

230 Park Avenue, 10th Floor, New York, New York 10169
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (646) 435-5645

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.001 Par Value Per Share
(Title of Class)

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

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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 the Form 10-K. []

As of April 1, 2002, Telemonde, Inc. had outstanding 123,626,118 shares of common stock, \$.001 par value per share.

The aggregate market value of Telemonde, Inc. common stock held by nonaffiliates of Telemonde, Inc., was \$ 0.93 million as of February 16, 2002 (based on February 16, 2002 closing stock price of \$0.01/share).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement pursuant to Regulation 14A, which statement will be filed not later than 120 days after the end of the fiscal year covered by this Report, are incorporated by reference in Part III hereof.

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TELEMONDE, INC. 2000 ANNUAL REPORT ON FORM 10-K

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements are any statements other than those relating to historical information or current condition, including without limitation, statements regarding future margin performance, customer retention capabilities, future revenues, strategy, and pricing of services. Forward-looking statements can often be identified by the use of forward-looking words such as "believes," "estimates," "expects," "intends," "may," "will," "should," or "anticipates". In addition, from time to time, we or our representatives have made or may make forward-looking statements, orally or in writing. Forward-looking statements also may be included in various filings that we have made or may make with the Securities and Exchange Commission, in press releases or in oral statements made by or with the approval of one of our authorized executive officers.

The forward-looking statements referred to above involve predictions. We cannot assure you that the future results will be achieved or that, if achieved, such results will be indicative of the results in later periods. The inclusion of forward-looking statements in this Annual Report should not be regarded as a representation by us or any other person that our objectives or plans will be achieved or that our operating expectations will be realized. Actual events or results may differ materially as a result of certain risks which are described in this Annual Report, including but not limited to, in the Business section under the caption "Risk Factors".

We undertake no obligation to publicly update or revise any forward-looking statement. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this Annual Report.

PART I

Item 1. Business

You should read this description of our business together with our Management's Discussion and Analysis of Financial Condition and Results of Operations and the Financial Statements and related notes appearing elsewhere in this Annual Report.

Introduction

We are an international communications business that offers telecommunications and related services.

Our principal areas of business are switched voice services--both wholesale switching of international traffic and international route management--and telecommunications advisory services. Our customers include telecommunications carriers, telecoms hotel developers and investors in telecommunication companies.

PRODUCTS AND SERVICES

Voice Services

Wholesale Switched Minutes

We offer wholesale-switched voice traffic services, being the collection, transportation and delivery of telephone calls on a local, long distance and

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international basis, which meet internationally recognized standards. We focus on providing high quality services by interconnecting our network with the networks of other carriers, principally through dedicated circuit connections. We seek to enhance our customers' margins by carrying their switched minutes at highly competitive rates.

We have points of presence in New York and London, where customers that wish to buy minutes from us interconnect their telephony systems with ours. We provide a number of high quality, niche interconnect routes.

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Advisory Services

We offer a wide range of advisory services in the telecommunications field to owners of and investors in telecommunication companies particularly telecoms hotel developers and operators. Our services range from financial restructuring to detailed assistance in the management of individual telecoms hotels.

Bandwidth Services

We have provided bandwidth services including the sourcing, supply and management of high-capacity bandwidth on terrestrial and satellite telecommunications systems across the globe to existing customers. We have, however, been actively removing ourselves from this market, for example, by reselling IRU's previously purchased back to the underlying provider. This has assisted in our eliminating or reducing liabilities to suppliers, and reducing ongoing associated costs and overhead costs.

DEVELOPMENT OF BUSINESS

We commenced operations in 1998 through subsidiary companies that are now wholly owned. We generally conduct our business through the following wholly owned subsidiaries:

| | |
|----------------------|---|
| Bandwidth Services : | Telemonde Networks Limited/Telemonde Investments Limited |
| Voice Services : | Telemonde Networks Limited/Equitel Communications Limited |
| Emerging Markets : | EquiTel Communications Limited |
| Advisory Services : | Telemonde Inc/Equitel Communications Limited |

We were formed on March 10, 1998 as Telemonde Investments Limited, a British Virgin Islands company. We began to purchase and sell trans-atlantic bandwidth through various wholly owned subsidiaries in April 1998. Pac-Rim Consulting, Inc., a dormant shell company with no operating history but listed on the NASD Over-the-Counter Bulletin Board acquired Telemonde Investments Limited on May 14, 1999. Subsequently the name was changed its name to Telemonde, Inc. On November 9, 1999, Telemonde, Inc. became a Delaware corporation.

For historical reasons we use certain Bermudan and BVI subsidiaries owned via Telemonde Investments Limited for the resale of bandwidth. We own 49% of Desert Telecommunications LLC (DeserTel), a company registered in Oman, which is no longer trading.

In November 1999 we acquired EquiTel, a company providing telecommunications route management and intelligent network services mainly to emerging markets.

During the course of 2001, we ceased actively marketing our traditional core

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business of bandwidth purchase and sale in light of current market conditions. We have terminating, where possible, contracts with providers and concluding negotiations to hand back certain network elements with associated customers and almost wholly removed ourselves from this market. We have been therefore concentrating on our advisory service businesses and our specialized voice services.

Our Principal Operating Companies

| Telemonde, Inc. | | |
|-----------------|----------------|-------------|
| 100% | 100% | 100% |
| Telemonde | EquiTel | Telemonde |
| Networks | Communications | Investments |
| Limited | Limited | Limited |
| | 49% | |
| | Desertel | |
| | Communications | |
| | LLC | |
| | 2 | |

During the first quarter of 2002, Desertel, our joint venture in Oman, ceased trading because of the expiry of relevant contracts. As part of the closure negotiations with our partner, we reduced our stake in DeserTel to 49%.

During the second quarter of 2001, we closed telemonde.net, our subsidiary based in Switzerland, which was developing our internet business. We determined to cease this business because this market did not mature as quickly as anticipated and we did not believe it appropriate to continue to support this loss making business. We anticipate, if we are unable to provide further funds to telemonde.net that it may be declared insolvent. We are working to avoid this, but may be unable to prevent it. We do not believe this will have a material effect on our business.

Our bespoke telecoms hotel development subsidiary, Metrolinx Limited, did not earn any revenues. It has now ceased trading. A winding-up petition has been presented by the one and only creditor of this subsidiary in the English High Court in London, despite various offers having been made by us to that creditor to make partial payments. We may not be able to defend this petition.

We have been refocusing our business particularly on advisory services and cash-positive voice services. We have reduced our overhead substantially, and are continuing to do so. We have seen a collapse in our markets which has made the selling of telecommunications bandwidth services extremely difficult. We have seen oversupply resulting in many of our competitors, suppliers and customers ceasing to trade or seeking the protection of the courts. Generally we have seen that our customers are not purchasing additional capacity whilst consolidation in our market places continues. We are working to ensure that our cash liabilities do not increase, whilst working with our creditors to reduce or eliminate historic debt. We believe that by continuing to trade and with the continued forbearance and active forgiveness by creditors of portions of their debts, our creditors may obtain some repayment. We have not sought the protection of the courts for any of our companies, but may be forced to do so should any of our creditors otherwise threaten the continuance of the group.

MARKETS

Voice

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The international switch voice market continues to grow despite the turmoil and consolidation in the industry and a backdrop of low margins and bad debt.

Growth in this market is driven by a number of key factors:

- . Deregulation in emerging markets resulting in privatization of formerly state owned operators and the emergence of new competing operators.
- . Technological advancements and lower barriers to entry driving down price and stimulating demand.
- . Continued globalization of world economies creating increased communications needs.
- . Proliferation of high-quality undersea fiber-optic cable systems around the world improving quality to the end-user and increasing competitive pressures resulting in further price decline.

The consolidation in the industry and the removal of a number of low-cost / low-margin providers will lead to a period of price stability at the wholesale end of the switch voice market. We believe that operators with high-quality niche routes will be able to play a role in the international voice market in the short to medium term whilst ensuring sustainable margins are developed and maintained once again.

Advisory Services

The market for advisory services on a strategic corporate basis is based on our individual contacts and is therefore not subject to normal market dynamics. The development of our advisory services is based on our view of the market need and the opportunity that exists to assist other companies to fulfil their aims and objectives.

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The continued downturn in the global telecommunications industry (with particular emphasis on North America and Europe) has led to a number of short term tactical opportunities as companies strive to reduce costs and remove themselves from market sectors or supply contracts as part of corporate recovery plans.

STRATEGY

Our strategy is to work with owners of and investors in telecommunication companies particularly telecoms hotel developers and operators to assist them in improving their efficiency, profitability and market positioning.

FINANCIAL INFORMATION REGARDING INDUSTRY SEGMENTS

We have included in this Annual Report financial information up to December 31, 2001. From our inception on March 10, 1998 to November 1999, our business consisted entirely of the sale of trans-atlantic bandwidth and the management of bandwidth through maintenance contracts with our customers. Following our acquisition of EquiTel in November 1999, we expanded our service offerings to include voice and emerging markets services. We have further expanded into advisory services. The segmental analysis is more fully discussed in note 14 of the Financial Statements.

CUSTOMERS AND GEOGRAPHIC CONCENTRATION

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Our customers include telecommunications carriers and owners of and investors in telecommunication companies.

Our business is global; while customers may have a specific geographic location, the services that we provide can be, and are, located anywhere in the world. We provide services to customers with principal places of business in Europe, North America, Asia-Pacific and the Middle East. In 2001, two customers accounted for over 10% of our revenues, Teleglobe to whom we provided short-term bandwidth leases and Europe Online Networks to whom we provided international bandwidth and IP transit services. The Teleglobe short-term leases expired in the fourth quarter of 2001 and we transferred the remaining contract for services with Europe Online Networks to Ebone Broadband Services to reduce our outstanding debt to them.

ORDER BOOK

We have developed a number of relationships with Carrier Hotel companies, investors in, and customers of, such companies. We have proposed a number of advisory service offerings to these companies with a view to being awarded ongoing contracts for our services or fees based upon the successful implementation of our proposals. There is no guarantee that these proposals will generate revenues in 2002.

GOVERNMENT REGULATION

As an international telecommunications company, we are and will be subject to varying degrees of regulation in each of the jurisdictions in which we provide services. Local laws and regulations, and the interpretation of these laws and regulations, differ significantly among each of the jurisdictions in which we operate and intend to operate.

With regard to our current operations, we have the necessary licenses which we believe are required to undertake our business and to implement our short-term plans. We hold a Public Telephone Operators License from the Department of Trade and Industry in the United Kingdom, where our international operations center and network infrastructure is based, and a Section 214 License in the United States of America.

EMPLOYEES

At December 31, 2001, we employed a total of 27 persons. Of these, 7 are executive officers, 10 provide network support and customer services and the remainder perform administrative functions.

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RISK FACTORS

Our business involves a significant number of material risks. The risks and uncertainties described below may not be the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may be, or may become, material and impair our business and operations.

During our limited operating history we have experienced operating losses, negative cash flow from operations and net losses.

We were organized in March 1998 and have a limited operating history. We have incurred operating losses and negative cash flow since our inception. From the date of inception to December 31, 2001 we have incurred losses of \$189.8

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million. Despite recognizing \$98.5 million in revenues, we incurred a deficit on total stockholders' equity of \$117.4 million for the period from March 10, 1998 through December 31, 2001. We may continue to incur losses and negative cash flow in 2002 as we expand our services and customer base.

The continuation and size of our operating losses and negative cash flows in the future will be affected by a variety of factors, including:

- . The ability to put in place working capital facilities and to increase our capital base.
- . The rate at which we add new customers and the prices those customers pay for our services.
- . The ability to predict demand for our services.
- . The ability of our local relationships in emerging markets to support our customers and meet our obligations.
- . General economic, financial, competitive, legislative, regulatory, licensing, and other factors that are beyond our control.

We have financed, and expect to continue to finance, our net losses, debt service, capital expenditures and other cash needs through flexible supplier and creditor payments, the issuance of debt primarily by way of short-term loan financing and the proceeds from sales of shares of common stock.

Our business requires periodic amounts of capital expenditure and our existing working capital facilities may be insufficient to meet our needs.

Our failure to accomplish any of the foregoing sources may significantly hinder expenditures. If we are unable to make capital expenditures, our business may grow more slowly or indeed we may be unable to continue trading. Our share price and the associated liquidity has significantly reduced our ability to sell our stock or to swap debt for equity reducing the financing options open to us.

We currently do not have the capital base or working capital facilities to meet our current and projected commitments. If we fail to successfully obtain necessary capital, or to obtain an insufficient amount of capital, we would harm our prospects. We have benefited from the willingness of suppliers to reschedule commitments and payments and may continue to require and take advantage of such flexibility in the future. However, this reliance on supplier flexibility for short term funding could lead to pressure from suppliers that may weaken our commercial position and if this flexibility ceased to be available, this could endanger us. In addition, it could result and has in the past resulted in events of default. We plan to seek external debt and equity funding to reduce this level of reliance on supplier flexibility but this may not be available to us.

We have a substantial level of indebtedness.

We have incurred a high level of debt. As of December 31, 2001, we had a combined total liability of \$119.5 million, including: \$17.3 million due to WorldCom, \$50.3 million due to Global Crossing and a loan from Home Run Limited of \$7.3 million convertible into shares of Common Stock at their option. We are also indebted to Communications Collateral Limited in the sum of \$3.3 million and Gemini in the sum of \$2.1 million and the Inland Revenue in the sum of \$2.2 million.

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The amount of our debt could have important consequences for our future, including, among other things:

- . Cash from operations may be insufficient to meet the principal and interest on our debts as they become due.
- . Payments of principal and interest on borrowings may leave us with insufficient cash resources for our operations.
- . Restrictive debt covenants may impair our ability to obtain additional financing.

We have been unable to generate sufficient cash flow to meet certain of our debt service requirements, and have triggered events of default on those obligations. Failure to generate sufficient sums to maintain debt repayments may impair our ability to develop our business and our ability to continue trading. Certain of our subsidiary companies including Metrolinx Limited and telemonde.net may be declared insolvent if they do not receive further funds from us.

The domestic and international telecommunications industry is highly competitive and we may not be able to compete effectively.

The telecommunications industry is highly competitive and is influenced significantly by the marketing and pricing decisions of the larger industry participants. The industry has relatively limited barriers to entry in the more deregulated countries with numerous entities competing for the same customers. We believe that competition in all of our markets is likely to increase. This increase in competition could adversely affect our revenues. Many of our competitors are significantly larger than we are.

Many of our competitors have:

- . Substantially greater financial, technical, and marketing resources.
- . Larger infrastructure.
- . A greater ability to support the portfolio of services.
- . Stronger name recognition and customer loyalty.
- . Long-standing relationships with our prospective customers.

We expect that competition in the international telecommunications market will intensify in the future.

We do not expect to pay dividends for the foreseeable future.

We plan to retain all earnings for investment in our business and do not plan to pay dividends at any time in the foreseeable future. See Part II, Item 5, "Dividend Policy."

A portion of our net revenue and expenses is denominated, and is expected to continue to be denominated in currencies other than US dollars.

Changes in exchange rates may have a significant effect on the results of our operations. Historically, we have not engaged in hedging transactions, and currently do not contemplate engaging in hedging transactions, to mitigate foreign exchange risk.

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The results of our operations may be affected by fluctuations in currency exchange rates. While most revenues have been earned in US dollars, a portion of operating costs are incurred in currencies other than US dollars, such as pounds sterling. A partial mismatch in operating revenues and expenses could lead to fluctuations in the results of our operations due to changes in the value of the US dollar relative to other currencies.

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Our operations are substantially dependent on key personnel.

Our success will depend to a significant degree upon the efforts of senior management with longstanding industry relationships and technical knowledge. Competition for such personnel is intense and we may not be able to retain highly skilled qualified personnel. Loss of services of one or more key personnel could adversely affect our business. We have entered into employment agreements with all key personnel.

Where You Can Find More Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and will file periodic reports, and other information relating to our business, financial statements and other matters with the Securities and Exchange Commission. Our SEC filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>.

Glossary of Certain Telecommunications Terms

Bandwidth--The range of frequencies that can be passed through a medium, such as glass fibers, without distortion. The greater the bandwidth, the greater the information-carrying capacity of such medium. For fiber optic transmission, electronic transmitting devices determine the bandwidth, not the fibers themselves. Bandwidth is measured in Hertz (analog) or bits per second (digital).

Carrier--A third party provider of communications services by wire, fiber or radio.

Carrier-Neutral Telecoms Hotel--A telecoms hotel operated by a company that is not itself a telecoms carrier--generally a property developer. Other telecoms hotels are operated by carriers making them less appealing to rival carriers than carrier-neutral telecoms hotels.

Co-location--The sharing of physical space and support services for telecommunications companies typically for the equipment required to host data services and interconnection facilities, for example, telecommunications companies may co-locate their switching facilities for the purpose of interconnection. Unique in its market design, this service allows buyers to define requirements within standardized terms and have sellers bid competitively for their business.

Indefeasible Right of Use (IRU)--A measure of currency in the fiber optic cable business. The owner of an IRU has the right to use the capacity for the time and bandwidth to which the IRU applies. In telecommunications, an IRU is the effective long term lease (temporary ownership) of the capacity of an international cable.

Internet--Interconnected computer networks, originally known as the Defense Advanced Research Projects Agency connecting government and academic sites. It currently links about 50 million people worldwide who use it for everything

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from scientific research to simple electronic mail.

Internet Protocol (IP)--The Internet protocol that defines the unit of information passed between systems providing a basis packet delivery service within the transmission control protocol/Internet protocol (TCP/IP). IP is used in gateways to link networks at an open systems interconnection (OSI) network Level 3 and above. IP is a standard that describes how packets of data are transported across the Internet and recognized as an incoming message.

Public Telephone Operator (PTO)--Originally a government owned national provider of telecommunications services. In countries where deregulation has occurred, the public telephone operator may be privatized whereas in countries where deregulation has not occurred, the public telephone operator remains government owned.

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Switch--A sophisticated computer that accepts instructions from a caller in the form of a telephone number. Like an address on an envelope, the numbers tell the switch where to route the call. The switch opens or closes circuits or selects the paths or circuits to be used for transmission of information. Switching is a process of interconnection circuits to form a transmission path between users. Switches allow local telecommunications service providers to connect calls directly to their destination, while providing advanced features and recording connection information for future billing.

Telecoms hotel--A building (or part of a building) that has either been specifically designed and built or has been adapted for use by telecommunications companies to meet their specific co-location requirements (also known as telehouses and carrier hotels).

Item 2. Properties

As of the date of this filing, Telemonde owned none of its office or operations facilities. All of Telemonde's operations were located at leased properties, as set forth below.

| Location | Type |
|--------------------|-----------------------|
| ----- | ---- |
| New York, USA | |
| 230 Park Avenue | Office Facilities |
| 111 8th Avenue | Equipment co-location |
| 60 Hudson Street | Equipment co-location |
| London, England | |
| 40 Portman Square | Office Facilities |
| 1 Coriander Avenue | Equipment co-location |

We consider the offices and facilities described above to be appropriate for the current position and size of our business.

Item 3. Legal Proceedings

From time to time, the Company is party to litigation or other legal proceedings that it considers to be a part of the ordinary course of its business. The Company is not involved in any legal proceedings nor is it party to any pending or threatened claims that could reasonably be expected to have a

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material adverse effect on its financial condition or results of operations. Metrolinx Limited is subject to a petition to be wound up in the English High Court. We may be unable to provide sufficient funds to Metrolinx Limited to enable this to be avoided. telemonde.net is subject of insolvency proceedings in Geneva. We may be unable to provide sufficient funds to telemonde.net to enable this to be avoided.

Item 4. Submission Of Matters To A Vote Of Security Holders

No matters were submitted to a vote of stockholders of Telemonde during the fourth quarter of 2001.

PART II

Item 5. Market For Registrant's Common Equity And Related Stockholder Matters

Holdings

The approximate number of record holders of common stock of Telemonde, Inc. at December 31, 2001 was 254.

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Dividend Policy

We have never declared or paid any dividends on our common stock and we do not anticipate paying cash dividends on the common stock in the foreseeable future. We do not expect to generate any net income in the foreseeable future but anticipate that future earnings generated from operations, if any, will be retained to finance the expansion and continued development of our business. Any future dividends will be at the discretion of the board of directors and will depend upon, among other things, our operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as the board of directors may deem relevant.

Price Range of Common Stock

During 2001 our common stock was traded on the NASD Over-the-Counter Bulletin Board under the symbol "TLMD".

The following table provides the reported high and low sales prices for our common stock on the NASD Over-the-Counter Bulletin Board for the quarterly periods indicated. The prices reflect inter-dealer prices and do not include retail markups, markdowns or commissions. The stock is not traded on any foreign public trading markets.

| | High | Low |
|----------------|------|------|
| | ---- | ---- |
| Fiscal 2001 | | |
| Fourth Quarter | 0.04 | 0.01 |
| Third Quarter | 0.06 | 0.01 |
| Second Quarter | 0.19 | 0.05 |
| First Quarter | 0.34 | 0.11 |
| | High | Low |
| | ---- | ---- |
| Fiscal 2000 | | |

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Fourth Quarter 0.41 0.11
 Third Quarter. 1.02 0.34
 Second Quarter 1.20 0.52*
 First Quarter. 1.78 0.75*

* From March 9 until July 24, 2000 our common stock was traded on the EQS Pink Sheets.

RECENT SALES OF UNREGISTERED SECURITIES

None of our securities which are not registered under the Securities Act of 1933, as amended (the "Securities Act"), have been sold by us during the fourth quarter of 2001.

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Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data as of and for the years ended December 31, 2000 and 1999 have been derived from, and are qualified by reference to, the Consolidated Financial Statements of the Company audited by Moore Stephens, Chartered Accountants, included in this Annual Report and should be read in conjunction with those Consolidated Financial Statements and Notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations.

| | Fiscal Year Ended December 31, 2001 | Fiscal Year Ended December 31, 2000 | Fiscal Year Ended December 31, 1999 |
|---|--|--|--|
| ----- | | | |
| (in millions, except per share data) | | | |
| Revenues..... | \$ 20.7 | \$ 40.3 | \$ 8.2 |
| Cost of sales..... | 20.5 | 29.4 | 6.4 |
| | ----- | ----- | ----- |
| Gross margin..... | 0.2 | 10.9 | 1.8 |
| Operating expenses | | | |
| Selling, general and administrative expenses..... | 10.3 | 16.6 | 9.5 |
| Amortization of goodwill..... | 3.8 | 3.7 | 0.5 |
| Financing costs..... | 2.1 | 2.6 | 10.6 |
| Impairment of goodwill..... | 19.7 | 5.2 | 0.0 |
| Impairment of property, plant and equipment..... | 14.7 | 0.0 | 0.0 |
| Impairment of investments..... | 2.1 | 0.0 | 0.0 |
| Reserve for doubtful debts..... | 6.0 | 2.1 | 0.9 |
| Reserve for inventory..... | 0.0 | 0.0 | 40.7 |
| Contract terminations and penalties..... | 46.6 | 0.0 | 0.0 |
| | ----- | ----- | ----- |
| Operating expenses..... | 105.3 | 30.2 | 62.2 |
| | ----- | ----- | ----- |
| Operating loss..... | (105.1) | (19.3) | (60.4) |
| Other income (expense) | | | |
| Interest income..... | 0.2 | 0.9 | 0.6 |
| Interest expense..... | (9.5) | (1.8) | (1.3) |
| Share of loss of associate..... | (0.0) | (0.4) | 0.0 |
| Foreign exchange gains..... | 0.0 | 0.5 | 0.0 |
| | ----- | ----- | ----- |

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| | | | |
|--|-----------|-----------|-----------|
| Total other income (expense)..... | (9.3) | (0.8) | (0.7) |
| | ----- | ----- | ----- |
| Loss before minority interests and extraordinary item..... | (114.4) | (20.1) | (61.1) |
| Minority interests..... | (0.0) | (0.1) | (0.0) |
| | ----- | ----- | ----- |
| Loss before extraordinary item..... | (114.4) | (20.2) | (61.1) |
| Extraordinary item--Gain on restructuring of debt..... | 0.0 | 17.6 | 0.0 |
| | ----- | ----- | ----- |
| Loss for the year..... | (114.4) | (2.6) | (61.1) |
| Loss per share--before extraordinary item--basic and diluted | \$ (0.97) | \$ (0.22) | \$ (1.22) |
| Loss per share--basic and diluted..... | \$ (0.97) | \$ (0.03) | \$ (1.22) |

| | At December 31, 2001 | At December 31, 2000 | At December 31, 1999 |
|----------------------------------|----------------------------|----------------------------|----------------------------|
| | ----- | ----- | ----- |
| Consolidated balance sheet data: | | | |
| Cash and cash equivalents..... | \$ 0.0 | \$ 1.4 | \$ 0.1 |
| Total assets..... | 2.1 | 58.9 | 78.5 |
| Total liabilities..... | 119.5 | 62.7 | 102.1 |
| Total stockholders' equity..... | (117.4) | (3.8) | (23.6) |

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

You should read the following discussion and analysis together with our Financial Statements, including the notes, appearing elsewhere in this Annual Report.

Overview

We are an international communications company that offers telecommunications and related services.

Telemonde Investments Limited, a British Virgin Islands company and the holding company for the Telemonde business, was formed in March 1998. Telemonde, Inc. (formerly Pac-Rim Consulting, Inc.) acquired Telemonde Investments Limited on May 14, 1999.

We have a limited operating history. We have incurred operating losses and negative cash flow since our inception. Whilst we continue to expect to incur negative cash flow as we expand our services, we are taking significant steps to reduce our unfunded liabilities and therefore move to a position where we can record operating profits.

Results of Operations

For the fiscal year ended December 31, 2001 compared with the fiscal year ended December 31, 2000.

Revenues for 2001 decreased by 49% to \$20.7 million compared to \$40.3 million for 2000.

Bandwidth capacity and leasing revenues decreased by 37% to \$10.8 million for 2001 compared to \$17.2 million for 2000 due to over capacity in the bandwidth market. Backhaul, maintenance and recharge revenues related to bandwidth capacity decreased by 15% to \$2.3 million for 2001 compared to \$2.7

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million for 2000.

Voice services revenues decreased by 62% to \$2.7 million for 2001 from \$7.1 million for 2000.

Attributable revenues for DeserTel, predominantly selling pre-paid calling cards in the Muscat region, were \$4.8 for 2001 compared to \$3.7 million for 2000.

Advisory services revenues decreased to \$0.1 million for 2001 compared to \$7.8 million for 2000.

There were no other revenues in 2001 compared with \$1.8 million in 2000.

Cost of sales decreased 30% to \$20.5 million for 2001 compared to \$29.4 million for 2000. This increase is related to the decrease in revenues.

Costs of bandwidth services decreased by 14% to \$13.5 million for 2001 compared to the \$15.7 million for 2000.

Costs of voice services decreased by 56% to \$3.8 million for 2001 compared with \$8.7 million for 2000.

The attributable costs relating to DeserTel were \$3.0 million for both 2001 and 2000.

Selling, general and administrative expenses decreased by 38% to \$10.3 million for 2001 compared to \$16.6 million for 2000. This was a result of a full review of costs including a reduction in staff from 49 to 27.

Amortization of goodwill was similar in 2001 at \$3.8 million compared with 2000. However, it became apparent the underlying strength of acquired businesses no longer justified the remaining goodwill of \$19.7 million so this has been written off as an impairment adjustment.

Financing costs decreased by 19% to \$2.1 million for 2001 compared to \$2.6 million for 2000.

Similar to the impairment of goodwill the carrying values of both bandwidth assets and investments have been reviewed. In view of the serious over capacity in the bandwidth market the bandwidth asset has been written down to a nil value with an impairment adjustment of \$14.7 million. Investments have been written down to the value of the underlying assets by providing for an impairment adjustment of \$2.1 million.

Reserve for doubtful debts increased to \$6.0 million for 2001 compared to \$2.1 million for 2000 mainly as a result of an impairment adjustment to a long-term prepayment for a traffic facility.

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Three contracts with suppliers/customers were terminated during 2001 resulting in a net charge of \$3.7 million. In addition the reinstatement of the Global Crossing liability (see discussion in the Liquidity and Capital Resources section of this Item) resulted in a total charge for contract terminations and penalties of \$46.6 million.

Interest income decreased to \$0.2 million for 2001 compared to \$0.9 million for 2000 mainly arising from the completion of an interest bearing installment sales contract.

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Interest expense increased to \$9.5 million for 2001 compared to \$1.8 million for 2000, in line with higher average borrowings and provision of contract interest.

Foreign exchange gains of \$0.5 million in 2000 were not repeated in 2001.

The gain on restructuring of debt of \$17.6 million in 2000 arises from the renegotiations of a contract with a bandwidth supplier.

The loss for the year increased to \$115.4 million for 2001 compared to \$2.6 million for 2000 principally from the impairment review of assets and the Global Crossing reinstatement.

For the fiscal year ended December 31, 2000 compared with the fiscal year ended December 31, 1999.

Revenues for 2000 increased by 391% to \$40.3 million compared to \$8.2 million for 1999.

Bandwidth capacity and leasing revenues increased by 213% to \$17.2 million for 2000 compared to \$5.5 million for 1999. This is as a result of the activation of circuits for a number of new European-based customers and the successful renewal of lease contracts with existing customers, mainly on the transatlantic section of the network. Backhaul, maintenance and recharge revenues related to bandwidth capacity were \$2.7 million in both years.

Voice services revenues increased to \$7.1 million for 2000 from nil for 1999, following the acquisition of EquiTel in the last quarter of 1999 allowing for the development of new wholesale switched voice services.

Attributable revenues for DeserTel, predominantly selling pre-paid calling cards in the Muscat region, were \$3.7 million for 2000. This reflected our obtaining 75% control in the joint venture from April 1, 2000. Approximately 650,000 pre-paid calling cards were sold by DeserTel to retail customers in Muscat during 2000. Revenues from pre-paid calling card services are recognized at the time of usage or upon the expiry of a card, if any balance remains unused.

Advisory services revenues increased to \$7.8 million for 2000 from nil for 1999. These sales are attributable to corporate advisory services provided by senior management to a number of global communications operators and property development companies.

Other revenues in 2000 were \$1.8 million compared with nil in 1999.

Cost of sales increased 359% to \$29.4 million for 2000 compared to a base cost of \$6.4 million for 1999. This increase is directly related to the similar increase in revenues.

Costs of bandwidth services increased by 145% to \$15.7 million for 2000 compared with the \$6.4 million base for 1999.

Costs of voice services increased to \$8.7 million for 2000 from a zero base in 1999. Costs are associated with the transportation of calls over our networks and termination onto our own or our suppliers' switches.

The attributable costs relating to DeserTel were \$3.0 million for 2000, arising from our obtaining a controlling interest in DeserTel from April 1, 2000.

Other costs of sales in 2000 increased to \$2.0 million compared with nil in

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1999.

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Selling, general and administrative expenses increased by 75% to \$16.6 million for 2000 compared to \$9.5 million for 1999.

Staff costs increased by 223% to \$8.4 million for 2000 compared to \$2.6 million for 1999. The increase in staff costs reflects the phased recruitment of sales, technical and professional staff required to provide the infrastructure of a diverse telecommunications business and \$1.5 million cost of employee share option awards.

Legal and professional fees decreased 28% to \$2.6 million for 2000 compared to \$3.6 million for 1999.

Other selling, general and administrative expenses increased 77% to \$5.6 million for 2000 compared to \$3.3 million for 1999. Primarily, this was a result of an increase in travel costs, consultancy costs and the inclusion of corporate overhead costs for a full business year.

Amortization of goodwill increased to \$3.7 million for 2000 compared with \$0.5 million in 1999 due to a full years amortization for the goodwill of EquiTel which was acquired in November 1999.

Financing costs decreased by 75% to \$2.6 million for 2000 compared to \$10.6 million for 1999. The decrease can be attributed to the warrants issued to Communications Collateral Limited and Global Crossing in 1999. Generally accepted accounting principles in the United States require that the fair value of the warrants be recorded as an expense over the period of the related financing. The \$2.4 million cost of the Global Crossing warrants was written back in the fiscal year ended December 31, 2000, following cancellation of the warrants.

There is a \$5.2 million charge for impairment of goodwill in 2000 as we do not anticipate any future cash flows from TGA (UK) Limited, which has now essentially ceased trading in its own right, or from our joint ventures in Africa. There was no corresponding charge in 1999.

Reserve for doubtful debts increased 133% to \$2.1 million for 2000 compared to \$0.9 million for 1999. The higher provision relates mainly to one customer against which legal action is being pursued to seek to recover the sums owing.

There was no charge for reserve for inventory in 2000 compared with the \$40.7 million charge in 1999 which arose from the severe decline in market prices during that year.

Interest income increased to \$0.9 million for 2000 compared to \$0.6 million for 1999 mainly arising from interest earned from customers.

Interest expense increased to \$1.8 million for 2000 compared to \$1.3 million for 1999, in line with higher average borrowings.

Share of loss of associate increased to \$0.4 million for 2000 from nil in 1999. These losses relate to the start up costs of DeserTel prior to our obtaining a controlling interest in April 2000.

Foreign exchange gains of \$0.5 million resulted from the strength of the US dollar against other currencies during the year.

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The gain on restructuring of debt of \$17.6 million in 2000 arises from the renegotiations of a contract with a bandwidth supplier.

The loss for the year decreased to \$2.6 million for 2000 compared to \$61.1 million for 1999. The decrease in the net loss arises principally from the increased sales, the prior year inventory reserve and the gain on debt restructuring.

Liquidity and Capital Resources

Our liquidity requirements arise from:

- . Net cash used in operating activities.
- . Interest and principal payments on outstanding indebtedness.

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We have satisfied our liquidity requirements to date through operating cash flows, short-term bridge financing, shareholder loans and equity subscriptions. Our illiquidity remains a key challenge facing the business. The Board believes that it is in the best interests of all stakeholders for us to continue to trade in order to be able to repay debt. The Board has been meeting regularly to review this position. We are in discussion with most creditors in an effort to reduce the level of our indebtedness. Without the continued forbearance of its creditors, one or more of the operating subsidiaries may be declared insolvent, which ultimately may affect us. We believe that by being able to continue trading, there is a greater likelihood of creditors receiving some payment. We are actively working to ensure that no new debts are incurred.

Net cash used in operating activities was \$2.1 million in the year ended December 31, 2001, compared with \$1.4 million used in 2000.

Net cash used in investing activities was \$0.3 million in 2001 compared with \$0.8 million in 2000.

Net cash provided by financing activities was \$0.9 million in 2001 compared with \$3.5 million in 2000.

Since inception through December 31, 2001, we have had negative cash flow from operating activities of \$20.2 million.

Our independent auditors, Moore Stephens, have reported that there is substantial doubt about our ability to continue as a going concern. Adjustments have been made in the consolidated financial statements to reduce the carrying value of assets to estimated recoverable amounts, and to reclassify liabilities, on the basis that we may not be able to continue as a going concern.

The level of indebtedness has been materially increased from \$62.7 million in 2000 to \$119.5 million in 2001.

As a consequence of the significant fall of the market prices for bandwidth and its impact on our operations and financial results in 2000 and continuing in 2001 and the failure to generate anticipated revenue from other sources, we have been unable to generate sufficient cash flow to meet certain of our debt service requirements. We are continuing to negotiate relief from our creditors.

In 1998, Telemonde Bandwidth (Bermuda) Limited agreed to acquire 16 STM-1 transatlantic IRU telecommunications circuits for an agreed price of

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approximately \$64.8 million from Atlantic Crossing Limited (a Global Crossing subsidiary). As of December 2001, we owed Global Crossing \$11.4 million for circuits which we had been supplied with and related maintenance charges and had a continuing obligation to draw-down 10 STM-1s for \$42.9 million.

In December 2000, Global Crossing released us from our outstanding commitment to purchase \$42.9 million worth of transatlantic capacity. In addition, Global Crossing agreed to reschedule our \$11.9 million debt for services supplied but not paid for. In exchange for this release, we have authorized and issued to Global Crossing 5 million shares of Series A Convertible Preferred Stock, \$.01 par value per share. These Preferred Shares are convertible into 23 million of our Common Stock at an issue value of \$4 million. We entered into a new commitment to purchase \$8 million of services from the Global Crossing portfolio over the next five years at the market prices prevailing at the time of purchase. We failed to make a payment due to Global Crossing under this Standstill Agreement, causing the Agreement to terminate. Prior to this default, we had already commenced renegotiations with Global Crossing. In November 2001, a conditional Settlement Agreement was reached with Global Crossing. The circuits with which we had been supplied were ceased and the contract with a customer who had purchased an IRU from us was transferred to Global Crossing. Global Crossing agreed that if we were able to pay or provide value in the amount of (Pounds)1,050,000 by December 31, 2001, it would release us from all our remaining liabilities. We had reached agreement in principle with a third party to provide this value. For administrative reasons, this condition was not fulfilled by December 31, however Global Crossing management indicated that they would stand by the offer. Detailed negotiations concerning how the value would be provided between the third party and Global Crossing were in progress when Global Crossing sought

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Chapter 11 protection in the US Courts which meant that Global Crossing was unable to conclude this transaction with the third party. We anticipate that this transaction will be completed during Global Crossing's administration or soon after it exits from it and Global Crossing will then release us from our liabilities. Nevertheless, because of the uncertainty, we have treated the standstill agreement as having terminated and written back the original purchase commitment, including interest. No value has been attributed to the issuance of the Preferred Shares. If the settlement is achieved, this would reduce the total liabilities and total stockholder's liabilities by \$61.8 million.

In December 1998 and March 1999 (through wholly-owned subsidiaries) we entered into agreements for the purchase of five STM-1 transatlantic IRU telecommunications circuits from WorldCom. We did not activate four of these circuits resulting in a default of \$26.3 million.

Since December 1999, WorldCom has not taken proceedings in respect of the outstanding liability pursuant to the terms of a standstill letter (as amended). Pursuant to the standstill letter, in September 2000, WorldCom released us from \$9 million of our liability in exchange for 15,766,792 shares of our common stock. Our current liability is \$17.8 million. The standstill arrangements have expired. Management had intended to seek to renegotiate a standstill in light of the settlement of the Global Crossing liability. This remains management's intention.

We have a debt obligation under a Capacity Option Agreement with Communications Collateral Limited (CCL) under which we have been unable to complete an agreed repurchase of capacity. Under the terms of a Forbearance Agreement entered into in February 2000, as at December 31, 2002 our

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outstanding debt to CCL was \$2.9 million. Interest is accruing on the outstanding amount at the rate of 12.5% per annum. Under a Registration Rights Agreement dated September 1, 1999 and under the Forbearance Agreement we have an obligation to issue CCL 8.2 million shares which shares relate to penalty obligations for failure to register CCL's shares for public resale prior to February 15, 2000. There is also a penalty payment due of \$2 million due for failure to issue these as free trading shares although we are in discussions with CCL regarding the waiving of this penalty.

We have a debt obligation under a Capacity Purchase Agreement to Gemini. As at December 31, 2001, the outstanding debt was \$2.1 million. As at December 31, 2001, we had paid Gemini \$1.1 million, of which \$0.6 million had reduced the original principal sum. Interest is accruing at LIBOR plus 3%. Gemini have now ceased the circuits supplied and taken them back.

We have a debt liability to the Inland Revenue, the collector of payroll taxes in the United Kingdom in the amount of \$2.2 million. Management is in discussion with the Inland Revenue regarding this debt. The Inland Revenue may take steps to recover this debt in the event that it is not settled or a settlement reached. This is likely to have a material effect on one or more of our UK operating subsidiaries which could materially affect our ability to continue to trade.

We entered into a convertible loan facility with Home Run Limited on April 27, 2000. Home Run provided us with a facility of \$7.3million. This sum is repayable on April 27, 2001, however it may be converted at the option of Home Run into shares of Common Stock on the basis of one share of Common Stock for every \$0.16 of loan value outstanding. We are discussing with Home Run the extension of this facility and they have indicated that they are willing to agree to such an extension.

At December 31, 2001 we had no material capital commitments.

We currently do not have the capital base or working capital facilities to meet our projected commitments. We are currently seeking short-term debt finance.

The Board of Telemonde is concerned about our illiquidity and general financial position. The Board is meeting regularly to keep the position under review. The Board has not taken the decision to cease trading, as it believes that on balance the stakeholders in the business, including our creditors and shareholders, are likely to be better served if we continue trading.

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There is substantial doubt about our ability to continue as a going concern. Management is addressing the ongoing solvency issues facing the company by cutting costs, seeking fresh financing and focussing on the provision of high-margin advisory services to the telecommunications sector. We have reduced our cost base by substantially reducing the number of employees, closing our subsidiary, telemonde.net in Switzerland and by agreed reductions in pay to certain employees. The operations of EquiTel and Telemonde Networks Limited have been merged with effect from December 31, 2001 to assist in this reduction. All senior management have been served with notice of termination of employment. Once these notices expire, in June 2002 or December 2002, as relevant, certain management may be re-employed on a rolling monthly basis on a case-by-case basis dependent on the prevailing circumstances and requirements at that time.

Critical Accounting Policies

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Our significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of this Form 10-K. We believe some of our most critical accounting policies include:

- . revenue recognition
- . impairment of long lived assets

Revenue Recognition

Bandwidth customers of the Company entered into either (1) operating lease agreements, or (2) capacity sales agreements.

The operating lease agreements granted the customer a right to use fiber optic cable capacity for periods of time which are substantially less than the design life of the capacity. Revenue is recognised on a straight line basis over the life of the lease.

The capacity sales agreements granted the customer an indefeasible right of use in units of fiber optic cable capacity. In accordance with the provisions of Financial Accounting Standards Board Interpretation No. 43 ("FIN43"), the capacity sales agreements were bifurcated into an equipment portion and a real estate portion. The real estate portion was classified as an operating lease. Revenues were recognised on a straight line basis over the life of the agreement. The equipment portion of a capacity sales agreement was classified as a direct financing sub lease, as defined by Statement of Financial Accounting Standards ("SFAS") 13. Under the terms of substantially all capacity sales agreements, the purchase price was due in full when the capacity was ready for service. In such cases, revenue attributable to the equipment portion was recognised when the capacity was ready for service. If the purchase price was payable on deferred terms, revenues were deferred and amortised to the income statement so as to produce a constant periodic rate of return on the net investment in the equipment portion of the capacity sales agreement. Customers who entered into capacity sales agreements paid deposits toward the purchase price and such amounts were included as deferred revenue in the consolidated balance sheet. Maintenance revenues due under capacity sales agreements are recognised in the year when services are rendered.

Telecommunications traffic revenues are recognised in the year when the traffic is transmitted. Telephone card service income earned by Desert Telecommunication Services LLC, was initially deferred then recognised rateably over the period of the card. Route management service income earned is recognised rateably over the period when services are rendered.

Advisory services revenues are recognised in the period that the service is rendered.

Impairment of long lived assets

For the purposes of the consolidated statements of cash flows, demand and time deposits with original maturities of three months or less are considered equivalent to cash.

Recent Events and Transactions

With effect from October 3, 2001, Mr Mark Hollo resigned as Director. Mr Hollo confirmed that he had not resigned his Directorship because of any disagreement with Telemonde Inc or his fellow directors or any matter relating to Telemonde Inc's operations, policies or practices.

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On December 31, 2001, Mr Bradford W. Harris resigned as Director. Mr Harries confirmed that he had not resigned his Directorship because of any disagreement with Telemonde Inc or his fellow directors or any matter relating to Telemonde Inc's operations, policies or practices.

On December 31, 2001, we concluded a settlement agreement with Ebone Broadband Services Limited. Under agreements with Ebone we had a liability, actual and contingent of \$4.2 million. To settle the liability, we negotiated with Europe Online Networks, our customer who was using the circuit to which the principal liability related, to take service directly from Ebone. Telemonde also provided a reducing guarantee for three years that Europe Online Networks would make payments to Ebone.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposures relate to changes in foreign currency rates. We are exposed to the risk of fluctuations in foreign currency exchange rates due to the international nature and scope of our operations. In the future, we expect to continue to derive a significant portion of our net revenue and incur a significant portion of our operating costs outside the United States, and changes in foreign currency exchange rates may have a significant effect on our results of operations. We historically have not engaged in hedging transactions to mitigate foreign exchange risk.

Our main exchange risk currently arises from fluctuations between the US dollar and pounds sterling. Our revenue from bandwidth sales is in US dollars. Although capacity purchases are also made in dollars, our sales, general and administrative costs are mostly incurred in pounds sterling because most of our employees are based in our executive and administrative offices in London, England.

Item 8. Financial Statements And Supplementary Data

The Report of Independent Accountants, Consolidated Financial Statements and supplemental financial data required by this Item 8 are set forth on pages F-1 through F-18 of this Report and are incorporated herein by reference.

Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure

None.

PART III

Item 10. Directors And Executive Officers Of The Registrant

Information relating to our directors and executive officers will be contained in a definitive Proxy Statement involving the election of directors that we will file with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 not later than 120 days after December 31, 2001, and such information is incorporated herein by reference.

Item 11. Executive Compensation

Information relating to executive compensation will be contained in the Proxy Statement referred to above in Item 10, "Directors and Executive Officers of the Registrant," and such information is incorporated herein by reference.

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Item 12. Security Ownership Of Certain Beneficial Owners And Management

Information relating to security ownership of certain beneficial owners and management will be contained in the Proxy Statement referred to in Item 10, "Directors and Executive Officers of the Registrant," and such information is incorporated herein by reference.

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Item 13. Certain Relationships And Related Transactions

Information relating to certain relationships and related transactions will be contained in the Proxy Statement referred to in Item 10, "Directors and Executive Officers of the Registrant," and such information is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, And Reports On Form 10-K

(a) Financial Statements

| | |
|--|----------|
| Consolidated Balance Sheet at December 31, 2001, 2000 and 1999..... | F-3 |
| Consolidated Statement of Income for the years ended December 31, 2001, 2000 and 1999... | F-4 |
| Statement of Stockholders' Equity for the year ended December 31, 2001, 2000 and 1999... | F-5 |
| Consolidated Statement of Cash Flows for the year ended December 31, 2001, 2000 and 1999 | F-6 |
| Notes to Consolidated Financial Statements..... | F-7-F-18 |

(c) Exhibits

| Exhibit No. | Description |
|-------------|---|
| ----- | ----- |
| 2.1* | Stock Purchase Agreement among Pac-Rim Consulting, Inc., Thomas Gelfand, Telemonde Investments Limited, and Rhone Financial Indemnity Re Limited, dated as of May 14, 1999. |
| 2.2* | Agreement Relating to the sale and Purchase of Shares in the Capital of EquiTel Commu Limited among (1) Telcoworld Limited and others, (2) Telemonde, Inc., and (3) Harry P and Larry Trachtenberg, dated November 8, 1999. |
| 2.3* | Agreement and Plan of Merger of Telemonde, Inc., a Nevada corporation, into Telemonde Delaware corporation, dated October 29, 1999. |
| 2.4* | Share Purchase Agreement for the Sale and Purchase of all the issued share capital of Limited, between the shareholders of TGA (UK) and Telemonde, Inc., dated August 9, 1999. |
| 3.1(a)* | Certificate of Incorporation of Telemonde, Inc., filed June 29, 1999. |
| 3.1(b)* | Certificate of Merger between Telemonde, Inc., a Nevada corporation, and Telemonde, Inc., a Delaware corporation. |
| 3.1(c)++ | Certificate of Designation for Series A Convertible Preferred Stock, \$.01 par value. |
| 3.2* | By-Laws of Telemonde, Inc. |

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- 4.1* Form of Common Stock Certificate.
- 4.2* Registration Rights Agreement between Telemonde, Inc. and Communications Collateral Limited, dated September 1, 1999.
- 4.3++ Amended and Restated Registration Rights Agreement, dated as of December 14, 2000, among Telemonde, Inc., MCI WorldCom Global Networks U.S. Inc., MCI WorldCom Global Networks Limited, and Global Crossing Limited.
- 10.1* Warrant from Telemonde, Inc. to Communications Collateral Limited, dated September 1, 1999.
- 10.2* Consulting Agreement between Telemonde, Inc. and Gottfried von Bismarck, dated November 1, 1999 and effective as of July 1, 1999.

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| Exhibit No. | Description |
|-------------|---|
| 10.3* | Form of Employment Agreement between Executive Officers and Telemonde. |
| 10.3(a)* | Schedule of Employees covered by Form of Employment Agreement. |
| 10.4* | Capacity Sales Agreement between Gemini Submarine Cable System Limited and Telemonde International Bandwidth (Bermuda) Limited, April 3, 1998. |
| 10.4(a)* | Promissory Note from Telemonde, Inc. to Gemini Submarine Cable System Limited, dated August 27, 1999 for \$1,300,000. |
| 10.4(b)* | Promissory Note from Telemonde, Inc. to Gemini Submarine Cable System Limited, dated August 27, 1999 for \$1,400,000. |
| 10.4(c)+ | Letter Agreement, dated October 27, 2000, from Gemini Submarine Cable System Limited and Telemonde International Bandwidth (Bermuda) Limited. |
| 10.5* | Capacity Purchase Agreement between Atlantic Crossing Ltd. And Telemonde Bandwidth (Bermuda) Limited, dated June 10, 1998. |
| 10.6* | Transmission Capacity Agreement among MCI WorldCom Global Networks U.S., Inc., and MFS Cableco (Bermuda) Limited, and, EquiTel Bandwidth Limited, dated December 1998. |
| 10.7* | Transmission Capacity Agreement among MCI WorldCom Global Networks U.S., Inc., and MCI Worldcom Global Networks Limited, and Telemonde International Bandwidth Limited, dated March 31, 1999. |
| 10.7(a)** | MCI WorldCom Global Networks U.S., Inc. Standstill Letter to and accepted by Telemonde Inc., Telemonde International Bandwidth Limited, Telemonde Networks Limited, Kevin Maxwell and Adam Bishop, dated December 31, 1999. |
| 10.7(b)** | MCI WorldCom Global Networks U.S., Inc. Capacity Swap Letter to and accepted by Telemonde International Bandwidth Limited, dated December 31, 1999. |
| 10.7(c)**** | Amendment No. 1 to MCI WorldCom Global Networks U.S., Inc. Standstill Letter, dated May 11, 2000, to and accepted by Telemonde, Inc., Telemonde Networks Limited and Telemonde International Bandwidth Limited. |

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- 10.7(d)**** Pledge Agreement, dated May 2, 2000, by and between Fastfirm Limited and MCI WorldCom Global Networks U.S., Inc. on behalf of itself and MCI WorldCom Global Network Limited.
- 10.7(e)***** Debt Conversion Agreement, dated July 25, 2000, by and among Telemonde, Inc., MCI WorldCom Global Networks U.S., Inc. and MCI WorldCom Global Networks Limited.
- 10.7(f)***** Amendment No. 2 to MCI WorldCom Global Networks U.S., Inc. Standstill Letter, dated July 25, 2000, to and accepted by Telemonde, Inc., Telemonde Networks Limited, Telemonde International Bandwidth Limited.
- 10.7(g)***** Amendment No. 3 to MCI WorldCom Global Networks US., Inc. Standstill Letter, dated September 19, 2000, to and accepted by Telemonde, Inc., Telemonde Networks Limited, Telemonde International Bandwidth Limited.
- 10.7(h)+ Amendment No. 4 to MCI WorldCom Global Networks U.S., Inc. Standstill Letter, dated November 13, 2000, to and accepted by Telemonde, Inc., Telemonde Networks Limited and Telemonde International Bandwidth Limited.
- 10.8* Transmission Capacity Agreement between Telemonde International Bandwidth Limited and Communications Collateral Limited and Capacity Option Agreement between Telemonde Investments Limited and Communications Collateral Limited, both dated April 15, 1999.

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| Exhibit No. ----- | Description ----- |
|----------------------|--|
| 10.9* | Composite Guarantee and Debenture, among (1) Telemonde Investments Limited, (2) Telemonde International Bandwidth (Bermuda) Limited, Telemonde Bandwidth (Bermuda) Limited, Telemonde International Bandwidth Limited, and (3) Communications Collateral Limited, April 5, 1999. |
| 10.10* | Loan Facility Agreement between Telemonde Investments Limited and Communications Collateral Limited, dated April 15, 1999. |
| 10.11** | Forbearance Agreement, dated 12 January 2000, entered into by and among Communication Collateral Limited, Telemonde Investments Limited, Telemonde International Bandwidth Limited, Telemonde, Inc. and Kevin Maxwell. |
| 10.12** | Advisor Agreement between Sand Brothers & Co., Ltd. and Telemonde, Inc., dated October 1999, and Amendment No. 1 to Advisor Agreement, dated November 10, 1999. |
| 10.13*** | Executive Services Agreement by and between Telemonde, Inc. and Paul E. Donofrio, dated February 22, 2000. |
| 10.14+ | Termination of Executive Services Agreement by and between Telemonde, Inc. and Paul E. Donofrio, dated as of October 31, 2000. |
| 10.15++ | Standstill Agreement, dated November 30, 2000, by and among Telemonde, Inc., Telemonde International Bandwidth (Bermuda) Ltd., Global Crossing USA Inc., GT U.K. Ltd, GT Landing Corp. and Telemonde Atlantic Crossing Ltd. |
| 10.16++ | Capacity Commitment Agreement, dated December 14, 2000, by and between Global Crossing USA Inc. and Telemonde Inc. |

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21 Subsidiaries of Registrant.

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- * Previously filed as an exhibit to the Registration Statement on Form 10, as filed with the SEC on November 15, 1999.
 - ** Previously filed as an exhibit to the Registration Statement on Form 10/A-1, as filed with the SEC on March 3, 2000.
 - *** Previously filed as an exhibit to the Annual Report for the year ended December 31, 1999 on Form 10-K, as filed with the SEC on March 30, 2000.
 - **** Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, as filed with the SEC on August 14, 2000.
 - ***** Previously filed as an exhibit to the Company's Current Report on Form 8-K dated September 19, 2000, as filed with the SEC on September 21, 2000.
 - + Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 29, 2000 as filed with the SEC on November 14, 2000.
 - ++ Previously filed as an exhibit to the Company's Current Report on Form 8-K dated December 29, 2000, as filed with the SEC on December 29, 2000.

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SIGNATURES

TELEMONDE, INC.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

TELEMONDE, INC.

By: /s/ ADAM N. BISHOP

Adam N. Bishop
President and Chief
Executive Officer

Date: April 12, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature ----- | Title ----- | Date ---- |
|---|--|----------------|
| /S/ KEVIN MAXWELL ----- Kevin Maxwell | Chairman and Director | April 12, 2002 |
| /S/ ADAM BISHOP ----- Adam Bishop | President, Chief Executive Officer, Treasurer and Director | April 12, 2002 |
| /S/ MIGUEL D. TIRADO ----- Miguel D. Tirado | Director | April 12, 2002 |
| /S/ PAUL E. DONOFRIO | Director | April 12, 2002 |

Paul E. Donofrio

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TELEMONDE, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001, 2000 AND 1999

TELEMONDE, INC.

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INDEPENDENT AUDITORS' REPORT

To the Stockholders of
Telemonde, Inc.

We have audited the accompanying consolidated balance sheets of Telemonde Inc as of December 31, 2001 and 2000 and the related consolidated statements of income, stockholders' equity and cash flows for the years ended December 31, 2001, 2000 and 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telemonde Inc as of December 31, 2001 and 2000, and the consolidated results of operations and cash flows for the years ended December 31, 2001, 2000 and 1999, in conformity with accounting principles generally accepted in the United States.

As discussed in note 1 to the financial statements, the Company has incurred accumulated losses of \$ 189.8 million and at December 31, 2001, total liabilities exceeded total assets by \$ 117.4 million. Management plans in this regard are also disclosed in note 1. There is substantial doubt about the ability of the Company to continue as a going concern. Adjustments have been made in these consolidated financial statements to reduce the carrying value of assets to estimated recoverable amounts, and to reclassify liabilities, on the basis that the Company may not be able to continue as a going concern.

Moore Stephens
Chartered Accountants
St. Paul's House
London EC4P 4BN
United Kingdom

April 11, 2002

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TELEMONDE, INC.

CONSOLIDATED BALANCE SHEETS As at December 31, 2001 and 2000 (US Dollars expressed in thousands)

| | Note | 2001 |
|--|--------|-----------|
| | ---- | ----- |
| Assets | | |
| Cash and cash equivalents..... | | \$ 26 |
| Trade accounts receivable, net of allowance for doubtful debts of \$559 in 2001 and \$2,025 in 2000..... | | 861 |
| Prepayments and other debtors, net allowance for impairment of \$5,400 in 2001..... | 7 | 801 |
| | | ----- |
| Total current assets..... | | 1,688 |
| Property, plant and equipment..... | 8 | 194 |
| Intangible assets..... | 9 | -- |
| Investment..... | 17 (b) | 180 |
| | | ----- |
| Total assets..... | | \$ 2,062 |
| | | ===== |
| Liabilities and stockholders' equity | | |
| Trade accounts payable..... | 10 | \$ 72,689 |
| Other creditors and accrued expenses..... | 11 | 28,248 |
| Deferred income..... | | 5,683 |
| Short term notes..... | 12 | 12,842 |
| | | ----- |
| Total current liabilities..... | | 119,462 |
| | | ----- |
| Trade accounts payable non-current..... | | -- |
| | | ----- |
| Commitments and Contingencies..... | | -- |

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| | | |
|---|----|-----------|
| Minority interests..... | | -- |
| | | ----- |
| Stockholders' equity | | |
| Preferred stock..... | 13 | 50 |
| Common stock..... | 13 | 122 |
| Additional paid in capital..... | | 72,257 |
| Retained earnings (deficit)..... | | (189,829) |
| | | ----- |
| Total stockholders' deficit..... | | (117,400) |
| | | ----- |
| Total liabilities and stockholders' equity..... | | \$ 2,062 |
| | | ===== |

See notes to consolidated financial statements

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TELEMONDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999
(\$ amounts in thousands, except per share data)

TELEMONDE, INC.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2001, 2000 and 1999
(US Dollars expressed in thousands except per share amounts)

| | Note | 2001 | 2000 | 1999 |
|---|------|-----------|-----------|--------|
| | | ----- | ----- | ----- |
| Revenues..... | 15 | \$ 20,725 | \$ 40,305 | \$ 8,1 |
| Cost of sales..... | | 20,517 | 29,357 | 6,3 |
| | | ----- | ----- | ----- |
| Gross margin..... | | 208 | 10,948 | 1,7 |
| | | ----- | ----- | ----- |
| Operating expenses | | | | |
| Selling, general and administrative expenses..... | | 10,319 | 16,636 | 9,4 |
| Amortisation of goodwill..... | | 3,846 | 3,681 | 5 |
| Financing costs..... | | 2,050 | 2,653 | 10,5 |
| Impairment of goodwill..... | | 19,697 | 5,249 | |
| Impairment of property, plant and equipment..... | | 14,707 | -- | |
| Impairment of investments..... | | 2,129 | -- | |
| Reserve for doubtful debts..... | | 5,959 | 2,055 | 9 |
| Reserve for inventory..... | | -- | -- | 40,6 |
| Contract terminations and penalties..... | | 46,637 | -- | |
| | | ----- | ----- | ----- |
| Operating expenses..... | | 105,344 | 30,274 | 62,1 |
| | | ----- | ----- | ----- |

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| | | | |
|---|--------------|------------|------------------|
| Operating loss..... | (105,136) | (19,326) | (60,3 |
| Other income (expense) | | | |
| Interest income..... | 193 | 885 | 5 |
| Interest expense..... | (9,513) | (1,786) | (1,3 |
| Share of loss of associate..... | -- | (400) | |
| Foreign exchange gains..... | 33 | 508 | |
| Total other expense..... | (9,287) | (793) | (7 |
| Loss before minority interests and extraordinary item..... | (114,423) | (20,119) | (61,1 |
| Minority interests..... | 12 | (74) | |
| Loss before extraordinary item..... | (114,411) | (20,193) | (61,1 |
| Extraordinary item--Gain on restructuring of debt (no applicable income taxes)..... | 4 | -- | 17,624 |
| Loss for the year..... | \$ (114,411) | \$ (2,569) | \$ (61,1 |
| Loss per share before extraordinary item--basic and diluted..... | \$ (0.97) | \$ (0.22) | \$ (1. |
| Loss per share--basic and diluted..... | 6 | \$ (0.97) | \$ (0.03) \$ (1. |

See notes to consolidated financial statements

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TELEMONDE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended December 31, 2001, 2000 and 1999
(US Dollars expressed in thousands)

| | Preferred Stock | Common Stock | Additional Paid in Capital | Retained Earnings | Tot |
|--|--------------------|-----------------|----------------------------------|----------------------|--------|
| | ----- | ----- | ----- | ----- | ----- |
| At January 1, 1999..... | \$-- | \$ 30 | \$ -- | \$ (11,732) | \$ (11 |
| Net loss..... | -- | -- | -- | (61,117) | (61 |
| Common stock issued..... | -- | 43 | 16,244 | -- | 16 |
| Stock issued to acquire subsidiaries and investments | -- | -- | 23,530 | -- | 23 |
| Financing costs satisfied by issuance of warrants... | -- | -- | 8,976 | -- | 8 |
| Fees satisfied by issuance of stock..... | -- | -- | 404 | -- | |
| At December 31, 1999..... | -- | 73 | 49,154 | (72,849) | (23 |
| Net loss..... | -- | -- | -- | (2,569) | (2 |
| Preferred stock issued..... | 50 | -- | 3,975 | -- | 4 |
| Common stock issued..... | -- | 34 | 6,133 | -- | 6 |
| Common stock cancelled..... | -- | -- | (300) | -- | |
| Stock issued to acquire subsidiaries and investments | -- | 2 | 2,835 | -- | 2 |
| Fees satisfied by issuance of stock..... | -- | -- | 9,640 | -- | 9 |
| At December 31, 2000..... | \$50 | \$109 | \$71,437 | \$ (75,418) | \$ (3 |

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| | | | | | |
|---|------|-------|----------|--------------|--------------|
| Net loss..... | -- | -- | -- | (114,411) | (114,411) |
| Stock issued as deferred consideration to acquire subsidiaries..... | -- | 12 | 1,619 | -- | 1,619 |
| Common stock cancelled..... | -- | -- | (912) | -- | (912) |
| Fees satisfied by issuance of stock..... | -- | -- | 69 | -- | 69 |
| Common stock issued to non Executive directors..... | -- | 1 | 44 | -- | 44 |
| | --- | --- | --- | --- | --- |
| At December 31, 2001..... | \$50 | \$122 | \$72,257 | \$ (189,829) | \$ (117,996) |
| | === | === | ===== | ===== | ===== |

See notes to consolidated financial statements

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TELEMONDE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2001, 2000 and 1999

(US Dollars expressed in thousands)

| | 2001 | 2000 |
|---|--------------|------------|
| | ----- | ----- |
| Operating activities | | |
| Net Loss | \$ (114,411) | \$ (2,569) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Reserve for doubtful debts..... | 559 | 2,055 |
| Reserve for inventory..... | -- | -- |
| Amortisation of goodwill..... | 3,846 | 3,681 |
| Financing costs satisfied by issuance of warrants..... | -- | 1,548 |
| Depreciation..... | 2,396 | 2,760 |
| Fees satisfied by issuance of stock..... | 114 | 3,524 |
| Common stock cancelled..... | (912) | -- |
| Extraordinary gain on restructuring of debt..... | -- | (17,624) |
| Impairment of goodwill..... | 19,697 | 5,249 |
| Impairment of property, plant and equipment..... | 14,707 | -- |
| Adjustment for real estate element..... | 826 | -- |
| Impairment of investments..... | 168 | -- |
| Stock issued as deferred consideration..... | 1,631 | -- |
| Minority interests..... | (90) | 74 |
| (Increase) decrease in trade accounts receivable..... | 4,893 | 2,804 |
| (Increase) decrease in prepayments & other debtors..... | 8,602 | (6,816) |
| (Increase) decrease in inventory..... | -- | -- |
| Increase (decrease) in trade accounts payable..... | 37,664 | (4,398) |
| Increase (decrease) in accrued expenses..... | 16,154 | 7,414 |
| Increase (decrease) in deferred income..... | (2,088) | 938 |
| | ----- | ----- |
| Net cash provided by (used in) operating activities..... | (2,068) | (1,360) |
| | ----- | ----- |
| Investing activities | | |
| Pre-acquisition advances to subsidiary..... | -- | -- |
| Purchases of investments..... | (273) | -- |
| Purchase of property, plant and equipment..... | (10) | (921) |
| Cash acquired in acquisitions..... | -- | 170 |

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| | | |
|---|---------|----------|
| Net cash provided by (used in) investing activities..... | (283) | (751) |
| <hr/> | | |
| Financing activities | | |
| Proceeds from short and long-term debt..... | 1,168 | 7,660 |
| Repayment of short and long term debt..... | (221) | (4,182) |
| Issuance of stock..... | -- | 1 |
| <hr/> | | |
| Net cash provided by (used in) financing activities..... | 947 | 3,479 |
| <hr/> | | |
| Net increase (decrease) in cash and cash equivalents..... | (1,404) | 1,368 |
| Cash and cash equivalents beginning of period..... | 1,430 | 62 |
| <hr/> | | |
| Cash and cash equivalents end of period..... | \$ 26 | \$ 1,430 |
| <hr/> | | |
| Supplemental disclosure of cash flow information: | | |
| Interest paid..... | \$ 5 | \$ 950 |
| <hr/> | | |

See notes to consolidated financial statements

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TELEMONDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2001, 2000 and 1999
(\$ amounts in thousands, except per share data)

1. Business, organisation and liquidity

Telemonde, Inc. and its subsidiaries (the "Company") is a telecommunications carrier and service company, providing a range of bandwidth, voice, emerging markets, internet and advisory services to the global telecommunications industry.

The Company has incurred accumulated losses of \$ 189,829 and as at December 31, 2001 its total liabilities exceeded its total assets by \$ 117,400. As a result of the losses, and continuing uncertainties in the global telecommunications industry, there is substantial doubt about the ability of the Company to continue as a going concern. As more fully explained in note 19, the Company has defaulted on the terms of payment of amounts due its principal suppliers and the Inland Revenue. The Company's creditors may seek to use their powers to force the Company or its subsidiaries to enter bankruptcy proceedings. A supplier has applied to the United Kingdom Courts for the compulsory winding up of Metrolinx Limited, a subsidiary of Telemonde Inc. The Company has been actively negotiating with its creditors to restructure its liabilities and provide more favourable payment terms. It is proposed to withdraw from the bandwidth market, and negotiate an exit from long-term supply contracts. The Company will focus on high margin advisory services and voice services.

The Company has reviewed the recoverability and classification of recorded assets, and the amounts and classification of liabilities, in order to reflect the fact that the Company may not be able to continue as a going concern. Adjustments have been made in these consolidated financial statements to reduce

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the carrying value of assets to estimated recoverable amounts, and to reclassify liabilities, on the basis that the Company may not be able to continue as a going concern.

2. Accounting policies

The following are the significant accounting policies adopted by the Company:

(a) Basis of accounting

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year.

Actual results could differ from those estimates. In 2001 assets are presented at their estimated recoverable amounts.

Estimates are used when accounting for allowance for doubtful debts, fair value adjustments to inventory, goodwill, accrued line costs and contingencies.

(b) Consolidation

The consolidated financial statements incorporate the assets and liabilities of the Company and its wholly-owned or majority controlled subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. Minority interest in the results of operations and share of net assets is recognised unless the relevant subsidiary has a net asset deficit and there is no binding obligation on the minority to make good the deficit.

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TELEMONDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999
(\$ amounts in thousands, except per share data)

(c) Revenues

Bandwidth customers of the Company entered into either (1) operating lease agreements, or (2) capacity sales agreements.

The operating lease agreements granted the customer a right to use fiber optic cable capacity for periods of time which are substantially less than the design life of the capacity. Revenue is recognised on a straight line basis over the life of the lease.

The capacity sales agreements granted the customer an indefeasible right of use in units of fiber optic cable capacity. In accordance with the provisions of Financial Accounting Standards Board Interpretation No. 43 ("FIN43"), the capacity sales agreements were bifurcated into an equipment portion and a real estate portion. The real estate portion was classified as an operating lease. Revenues were recognised on a straight line basis over the life of the

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agreement. The equipment portion of a capacity sales agreement was classified as a direct financing sub lease, as defined by Statement of Financial Accounting Standards ("SFAS") 13. Under the terms of substantially all capacity sales agreements, the purchase price was due in full when the capacity was ready for service. In such cases, revenue attributable to the equipment portion was recognised when the capacity was ready for service. If the purchase price was payable on deferred terms, revenues were deferred and amortised to the income statement so as to produce a constant periodic rate of return on the net investment in the equipment portion of the capacity sales agreement. Customers who entered into capacity sales agreements paid deposits toward the purchase price and such amounts were included as deferred revenue in the consolidated balance sheet. Maintenance revenues due under capacity sales agreements are recognised in the year when services are rendered.

Telecommunications traffic revenues are recognised in the year when the traffic is transmitted. Telephone card service income earned by Desert Telecommunication Services LLC, was initially deferred then recognised rateably over the period of the card. Route management service income earned is recognised rateably over the period when services are rendered.

Advisory services revenues are recognised in the period that the service is rendered.

(d) Cost of Sales

The Company entered into agreements with its bandwidth suppliers which took the form of either (1) operating lease agreements, or (2) capacity purchase agreements.

The operating lease agreements granted the Company a right to use fiber optic cable capacity for periods of time which were substantially less than the design life of the capacity. Operating lease costs were recognised on a straight line basis over the life of the lease.

The capacity purchase agreements granted the Company an indefeasible right of use in units of fiber optic cable capacity. In accordance with the provisions of FIN43, the capacity purchase agreements were bifurcated into an equipment portion and a real estate portion. The real estate portion was classified as an operating lease. Operating lease costs were recognised on a straight line basis over the life of the agreement. The equipment portion of a capacity purchase agreement was classified as a capital lease, as defined by SFAS 13. Capacity acquired under capital leases was initially recorded as an obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term.

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TELEMONDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999
(\$ amounts in thousands, except per share data)

(e) Fair value of financial instruments

The carrying amounts for cash, cash equivalents, accounts receivable, accounts payable, accrued liabilities and short term notes approximate their fair value.

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(f) Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, demand and time deposits with original maturities of three months or less are considered equivalent to cash.

(g) Property, plant and equipment

The Company's fiber optic cable network acquired under capital leases was initially recorded as an asset and an obligation at an amount equal to the present value at the beginning of the lease term of the minimum lease payments during the lease term. Thereafter it was depreciated on a straight line basis over the estimated useful life of 10 years from the date of being brought into use. Telecommunications and office equipment is depreciated on a straight line basis over 4 years. See Note 1.

(h) Goodwill

Goodwill arising on the acquisition of subsidiaries is capitalised and amortised on a straight line basis over its estimated useful life, taken to be 10 years from the date of acquisition.

(i) Intangible assets

Intangible assets other than goodwill are recorded at cost and amortised on a straight line basis over their estimated useful lives, taken to be 5 years from the date of acquisition.

(j) Impairment of long-lived assets

As prescribed by SFAS 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of", the Company assesses the recoverability of its long-lived assets (including goodwill) by determining whether the asset balance can be recovered over the remaining depreciation or amortisation period through projected undiscounted future cash flows. Cash flow projections, although subject to a degree of uncertainty, are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

(k) Investments in joint ventures

Investments in joint ventures are accounted for under the equity method, whereby the Company recognises its share of profits and losses reported by the joint venture. In cases where the Company's funding commitments are uncertain, full provision is made for 100% of losses reported by joint ventures.

(l) Financing costs

The costs associated with short and long term debt are amortised over the life of the related debt on a straight line basis.

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TELEMONDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999

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(\$ amounts in thousands, except per share data)

(m) Foreign currencies

The Company's functional currency is the US Dollar as the majority of revenues are received in US Dollars and the majority of operating expenditures are made in US Dollars. Transactions in foreign currencies are translated into US Dollars at the rates of exchange in effect at the date of transaction. Foreign currency monetary assets and liabilities are translated using rates of exchange at the balance sheet date.

(n) Concentrations of credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and accounts receivable. The Company is exposed to concentrations of credit risk from accounts receivable to the extent that it has a limited number of customers, all of which operate in the telecommunications sector. The Company performs on-going evaluations of its customers' financial condition.

The Company maintains its cash balances at financial institutions which do not provide insurance on amounts under deposit arrangements. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

(o) Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

3. Adoption of new accounting standards

On January 1, 2001, the Company adopted SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", as amended, which establishes the accounting and reporting standards for derivative instruments and hedging activities. The adoption of the standard did not have a material effect on the Company's consolidated financial statements.

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 141 "Business Combinations". This standard prohibits the use of the pooling of interests method for all business combinations initiated after June 30, 2001. The adoption of SFAS 141 did not have a material effect on the Company's consolidated financial statements.

In July 2001, the FASB issued SFAS 142 "Goodwill and Other Intangible Assets". Under this standard, goodwill is no longer amortized but reviewed for impairment at least annually. The standard also provides guidance on the accounting for other intangible assets. An acquired intangible asset (other than goodwill) with an indefinite useful life should not be amortized until its useful economic life is determined to be finite. These assets should be tested for impairment at least annually. An acquired intangible asset (other than goodwill) with a limited useful life should be amortized over its useful economic life and reviewed for impairment in accordance with SFAS 121. The effective date of SFAS 142 is for fiscal years beginning after December 15, 2001. Goodwill and other intangible assets acquired after June 30, 2001 were immediately subject to the nonamortization and amortization provisions of the standard. SFAS 142 will be adopted in full on January 1, 2002. Application of the standard would not have affected net income in the year ended December 31, 2001. Amortization of goodwill would have been reduced by \$3,846 to nil, and impairment of goodwill would have increased by the same amount.

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TELEMONDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999
(\$ amounts in thousands, except per share data)

In October 2001, the FASB issued SFAS 144 "Accounting for the Impairment or Disposal of Long Lived Assets". This standard supersedes SFAS 121 but retains the basic requirements regarding when to recognize and how to measure an impairment loss. SFAS 144 applies to long lived assets but specifically excludes goodwill and intangible assets not being amortized. Adoption of SFAS 144 is required for fiscal years beginning after December 15, 2001. SFAS 144 will be adopted on January 1, 2002. The adoption of SFAS 144 is not expected to have a material effect on the Company's consolidated financial statements.

4. Extraordinary item

Under terms of the standstill agreement dated December 4, 2000 with Global Crossing, the Company extinguished liabilities and cancelled bandwidth contracts valued at \$55,025 and \$21,465, respectively, in exchange for a note payable totalling \$11,911 and 5,000,000 shares of the Company's convertible preferred stock. The estimated fair value of 5,000,000 shares of preferred stock was \$4,025, resulting in an extraordinary gain on restructuring of debt of \$17,624. The effect of the extraordinary gain on restructuring of debt on net loss per share amounted to \$0.19 per share.

5. Taxation

The Company has incurred operating losses. In the event that the Company generates taxable earnings in the future, operating losses incurred in 2001, 2000 and 1999 would not necessarily be applied against future taxable earnings. Accordingly, no tax provisions or deferred tax benefit was recorded in 2001, 2000 or 1999.

6. Loss per share

The calculation of basic earnings per share is as follows:

| | 2001 | 2000 | 1999 |
|--|--------------|------------|-------------|
| | ----- | ----- | ----- |
| Loss attributable to common stockholders.... | \$ (114,411) | \$ (2,569) | \$ (61,117) |
| Average common shares issued and outstanding | 118,179,845 | 90,858,46 | 50,186,654 |
| | ----- | ----- | ----- |
| Basic and diluted loss per share..... | \$ (0.97) | \$ (0.03) | \$ (1.22) |
| | ===== | ===== | ===== |

No adjustment to earnings per share arises on the issue of warrants as the effect is antidilutive.

7. Prepayments and other debtors

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| | 2001 | 2000 |
|--|------|-------|
| | ---- | ----- |
| Prepaid traffic, bandwidth and network costs | 522 | 7,543 |
| Other..... | 279 | 1,860 |
| | --- | ----- |
| Total..... | 801 | 9,403 |
| | === | ===== |

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TELEMONDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999
(\$ amounts in thousands, except per share data)

8. Property, plant and equipment

| | 2001 | 2000 |
|--|--------------|--------|
| | ----- | ----- |
| | (See Note 1) | |
| Fiber optic network, net of accumulated depreciation of \$759 in 2000..... | -- | 5,783 |
| Undrawn capacity, net of accumulated depreciation of \$1,315 in 2000..... | -- | 10,520 |
| Telecommunications equipment, net of accumulated depreciation of \$1,521 in 2001 and \$1,182 in 2000..... | 149 | 1,701 |
| Office equipment, net of accumulated depreciation of \$77 in 2001 and \$94 in 2000..... | 45 | 109 |
| | --- | ----- |
| | 194 | 18,113 |
| | === | ===== |

Depreciation expense amounted to \$ 2,396, \$2,760 and \$590 for the years ended December 31, 2001, 2000 and 1999, respectively.

9. Intangible assets

| | 2001 | 2000 |
|---|------|--------|
| | ---- | ----- |
| Goodwill, net of accumulated amortization of \$3,074 in 2000... | -- | 19,908 |
| Customer base, net of accumulated amortization of \$774 in 2000 | -- | 3,018 |
| Employees, net of accumulated amortisation of \$182 in 2000.... | -- | 692 |
| | --- | ----- |
| | -- | 23,618 |
| | == | ===== |

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Goodwill and other intangible assets related to the Company's investments in Equitel Communications Limited were written off to loss on impairment of goodwill during the year ended December 31, 2001, resulting in an impairment loss of \$ 19,697. Impairment is assessed based on the fair values of the assets. Fair values are estimated using discounted future cash flows based on current market interest rates. As the Company does not anticipate future cash flows from Equitel Communications Limited, following a decline in its markets and the termination of contracts in Oman, the carrying value of related goodwill has been reduced to nil.

Goodwill related to the Company's investment in TGA (UK) Limited and investments in joint ventures in Africa, arising upon acquisition of Equitel Communications Limited, were written off to loss as impairment of goodwill during the year ended December 31, 2000, resulting in a loss of \$5,249.

10. Trade accounts payable

Included in trade accounts payable is an amount due to Gemini Submarine Cable System Limited ("Gemini") in the form of two promissory notes executed in August 1999, as more fully discussed in Note 19. Interest accrues on the outstanding balance at a rate of 3% over LIBOR. The outstanding debt is secured by the capacity. The balance of accounts payable due to Gemini under these promissory notes amounted to \$2,139 and \$1,825 as of December 31, 2001 and 2000, respectively. Accrued interest of \$ Nil and \$365 as of December 31, 2001 and 2000, respectively is included in other creditors and accrued expenses.

Included in trade accounts payable is an amount due to WorldCom in connection with capacity purchase agreements entered into in December 1998 and March 1999, as more fully described in Note 19. The balance due to WorldCom under these capacity purchase agreements amounted to \$ 17,300 and \$17,300 as of December 31, 2001 and 2000 respectively.

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TELEMUNDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999
(\$ amounts in thousands, except per share data)

Included in trade accounts payable is an amount due to Global Crossing in connection with a capacity purchase agreement entered into in June, 1998, backhaul agreements entered into in December 1998, and a capacity commitment agreement entered into in December 2000, as more fully described in Note 19. The balance due to Global Crossing under these agreements amounted to \$ 50,341 and \$ 10,541 as of December 31, 2001 and 2000 respectively. Related accrued interest of \$ 7,526 and \$61 is included in other creditors and accrued expenses.

11. Other creditors and accrued expenses

| | 2001 | 2000 |
|--|-------|-------|
| | ----- | ----- |
| Accrued traffic, bandwidth and network costs | 7,409 | 6,321 |
| Payroll taxes..... | 2,152 | 1,137 |
| Contract penalties..... | 3,605 | 1,105 |
| Accrued interest..... | 8,841 | 971 |

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| | | |
|------------|--------|--------|
| Other..... | 6,241 | 2,560 |
| | ----- | ----- |
| Total..... | 28,248 | 12,094 |
| | ===== | ===== |

12. Short term notes

| | 2001 | 2000 |
|--|--------|--------|
| | ----- | ----- |
| Communications Collateral Limited including principal and accrued interest at 12.5%, payable in one lump sum, due on demand secured by substantially all the assets of Telemonde Investments Limited and its subsidiaries..... | 3,263 | 2,924 |
| Convertible note payable, bearing interest at LIBOR plus 2%, payable in one lump sum, due April 2001, convertible to common stock at \$0.80 per share unsecured. | 7,300 | 7,450 |
| Note payable, non interest bearing, payable in one lump sum, due on demand, unsecured..... | 1,000 | 1,000 |
| Other notes payable, interest at various rates, due on demand, unsecured..... | 1,279 | 521 |
| | ----- | ----- |
| | 12,842 | 11,895 |
| | ===== | ===== |

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TELEMONDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999
(\$ amounts in thousands, except per share data)

13. Capital stock

The Company has two classes of stock, Common Stock and Series A Convertible Preferred Stock ("Preferred Stock"). Each share of Preferred Stock may be converted into approximately 4.6 shares of the Company's Common Stock and carries voting rights equal to the voting rights and powers of the Common Stock. Holders of Preferred Stock are entitled to the number of votes equal to the number of shares of Common Stock for which it is convertible. Additionally, certain corporate actions require the affirmative vote of holders of at least 66 2/3% of the shares of Preferred Stock. Holders of Preferred Stock are entitled to participate in dividends and distributions and receive preference to any distributions in the event of liquidation, dissolution or winding up.

The Company's authorized and issued consisted of the following:

| | 2001 | 2000 |
|--|-------|-------|
| | ---- | ---- |
| Authorized: | | |
| 145,000,000 shares of common stock \$0.001 par value per share | \$145 | \$145 |
| | ===== | ===== |

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| | | |
|--|-------|-------|
| 5,000,000 shares of preferred stock \$0.01 par value per share | \$ 50 | \$ 50 |
| | ==== | ==== |
| Issued: | | |
| 121,876,118 (2000: 108,982,546) shares of common stock..... | \$122 | \$109 |
| 5,000,000 (2000: 5,000,000) shares of preferred stock..... | 50 | 50 |
| | ----- | ----- |
| | \$172 | \$159 |
| | ==== | ==== |

In September 1999, the Company issued warrants to Communications Collateral Limited providing rights to purchase shares equal to 7% of the issued share capital of the Company immediately prior of issuance. The exercise price was set at the lesser of (i) \$5.25 per share or (ii) if the price per share is below \$5.25 for 20 consecutive trading days prior to an equity offering by the Company of at least \$10 million, the average of the per share price during such 20 day period. The warrants are exercisable for up until 3 years from the date of the equity offering.

Using the Black-Scholes option pricing model, the warrants have been valued at \$ 6,600. This has been treated as additional paid in capital and financing costs in 1999. The valuation model is based on the prevailing stock price of \$5.25 per share and a 65% volatility factor. During the year ended December 31, 2000 the exercise price of \$5.25 was reduced to \$2.70. The value of the warrants remained substantially unchanged at \$6,600.

The Company has entered into Registration Rights Agreements with Communications Collateral Limited, WorldCom and Global Crossing providing for participation as selling shareholders beginning with the first underwritten public offering of at least \$10 million. In addition the agreements provide certain additional demand and piggyback registration rights.

In 2001, the Company issued 800,000 shares of common stock to its non-executive directors, resulting in a charge to the income statement of \$40.

14. Segments

The Company follows provisions of SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 establishes standards for reporting information about operating segments in

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TELEMONDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999
(\$ amounts in thousands, except per share data)

annual financial statements and requires selected information about operating segments in financial reports issued to stockholders. It also establishes standards for disclosures about products and services and geographic areas. Operating segments are components of an enterprise for which separate financial information is available and which is evaluated regularly by the Company's chief operating decision maker, or decision making group, in deciding how to allocate resources and assess performance. Operating segments are managed separately and represent strategic business units that offer different products and serve different markets.

The Company's reportable segments include bandwidth services, voice

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services, and advisory services. Other primarily includes developing business lines such as internet services and other corporate assets including goodwill and overhead not attributable to a specific segment.

| | Bandwidth Services | Voice Services | Advisory Services | Other Services | Total |
|--------------------------|-----------------------|-------------------|----------------------|-------------------|---------|
| ----- | | | | | |
| (US dollars in millions) | | | | | |
| 2001 | | | | | |
| Revenues..... | 13.1 | 7.5 | 0.1 | 0.0 | 20.7 |
| Gross margin..... | (0.4) | 0.7 | 0.1 | (0.2) | 0.2 |
| Net income (loss). | (21.5) | (3.5) | 0.1 | (89.5) | (114.4) |
| Total assets..... | 0.7 | 0.7 | 0.0 | 0.7 | 2.1 |
| 2000 | | | | | |
| Revenues..... | 19.9 | 10.8 | 7.8 | 1.8 | 40.3 |
| Gross margin..... | 4.2 | (0.9) | 7.4 | 0.2 | 10.9 |
| Extraordinary gain | 17.6 | -- | -- | -- | 17.6 |
| Net income (loss). | 12.0 | (7.4) | 5.5 | (12.7) | (2.6) |
| Total assets..... | 21.0 | 9.4 | 2.6 | 25.9 | 58.9 |
| 1999 | | | | | |
| Revenues..... | 8.2 | -- | -- | -- | 8.2 |
| Gross margin..... | 1.8 | -- | -- | -- | 1.8 |
| Net income (loss). | (61.1) | -- | -- | -- | (61.1) |

15. Concentrations

The following are the customers, together with their country of incorporation, that comprise 10% or more of operating revenues:

| | 2001 | 2000 | 1999 |
|---|-------|-------|-------|
| ----- | | | |
| Jazz Telecom S.A. (Spain)..... | 324 | 7,026 | -- |
| Telecom Italia (Italy)..... | 109 | 140 | 4,621 |
| Trans Global Network Services (England) | 811 | 4,003 | 2,000 |
| Wholesale Telecom Company (USA)..... | 406 | 5,355 | -- |
| Europe On Line (Switzerland)..... | 2,436 | 2,312 | -- |
| Teleglobe..... | 6,953 | 787 | -- |

None of the above bandwidth revenues are expected to be recurring sources of revenue.

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TELEMUNDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999
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16. Related party transactions

- (a) During the year the Company made payments to Argonaut Limited and Harley Consultants Limited amounting to \$ Nil (2000: \$45, 1999: \$225) for directors and consultancy services. Mr. Michael Collins, a director of Telemonde Investments Limited, is a director of both Argonaut Limited and Harley Consultants Limited and has a controlling interest in Argonaut Limited.
- (b) During the year Meynard Freres Limited (Formerly Hoolcross Limited) advanced \$90 to the Company (2000: \$70, 1999: \$ Nil). Advisory fees billed by the Company to Meynard Freres Limited amounted to \$792 (2000: Nil, 1999: Nil) of which \$141 was outstanding at 31 December. Kevin Maxwell is a director and shareholder of Meynard Freres Limited.

17. Acquisitions and Disposals

(a) Telemonde Investments Limited

On May 14, 1999, the Company acquired Telemonde Investments Limited in a reverse purchase stock transaction. Pursuant to the Stock Purchase Agreement, the Company issued 35,297,000 shares of common stock to the sole shareholder of Telemonde Investments Limited, in exchange for all of the issued and outstanding shares of Telemonde Investments Limited. As a result, Telemonde Investments Limited became a wholly owned subsidiary of the Company. The transaction has been accounted for as a reverse purchase acquisition in a manner similar to the pooling of interests method of accounting.

(b) Desert Telecommunications Services LLC

In March 2000, the Company entered into an agreement to acquire an additional 26% interest in Desert Telecommunications Services LLC in Oman. Through its subsidiary Equitel Communications Limited, the Company already held a 49% interest in Desert Telecommunications Services LLC which had been accounted for under the equity method.

The acquisition was accounted for as a purchase. The purchase price was allocated to the assets and liabilities acquired based on their fair market values. The assets, liabilities and results of operations of Desert Telecommunications Services LLC are included with those of the Company as of April 1, 2000.

The total purchase price amounted to \$2,026 and was comprised of 1,750,000 shares of common stock of the Company. The excess of the purchase price over the assets acquired and liabilities assumed of \$2,202 was attributed to goodwill.

In December 2001, the Company reached agreement to dispose of its 26% interest in Desert Telecommunications Services LLC to the minority shareholder, in exchange for the return and cancellation of 1,750,000 shares of common stock of the Company. There was no material difference between the fair value of the proceeds and the fair value of the assets and liabilities disposed of. The remaining 49% interest in Desert Telecommunications Services LLC is being accounted for under the equity method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999
(\$ amounts in thousands, except per share data)

(c) Equitel Communications Limited

On November 8, 1999, the Company acquired the entire issued share capital of Equitel Communications Limited, a telecommunications services company incorporated in the United Kingdom. The vendors of Equitel Communications Limited included Janet Pomeroy, Adam Bishop and Telcoworld Limited. Kevin Maxwell is associated with Telcoworld Limited. Kevin Maxwell and Adam Bishop are directors of Telemonde Inc. Harry Pomeroy is a director of Equitel Communications Limited. The combination has been accounted for under the purchase method and the results have been included from the date of acquisition. Under the terms of the Share Purchase Agreement, the consideration payable to the vendors was \$20,632 satisfied by the issuance of 4,947,917 shares of common stock of the Company in 1999 and 12,434,286 shares of common stock of the company in 2001.

The purchase consideration was allocated as follows:-

| | |
|--|-----------|
| Fair value of net liabilities acquired | (11,402) |
| Goodwill..... | 27,236 |
| Customer base..... | 3,898 |
| Employees..... | 900 |
| | ----- |
| | \$ 20,632 |
| | ===== |

18. Commitments

The Company has entered into long term agreements for its principal offices and the acquisition of telecommunications services. Future minimum payments under non-cancellable commitments are as follows.

| | |
|-------------------------------------|-------|
| Year ended December 31, ----- | |
| 2002..... | \$350 |
| 2003..... | 250 |
| 2004..... | 75 |
| 2005..... | -- |
| Thereafter. | -- |

19. Contingencies, risk and uncertainties

(a) Communication Collateral Limited

In April 1999, the Company entered into a capacity option agreement with Communications Collateral Limited. The agreement granted a put option to Communications Collateral Limited to require the Company to purchase certain capacity for \$6,500. Communications Collateral Limited exercised the option and the Company has paid \$2,500 of the purchase price but defaulted on the

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remaining balance of \$4,000. As of December 31, 2001 the Company remains in default of the option agreement. The balance due to Communications Collateral Limited under the option agreement, including interest thereon of \$3,263 and \$2,924 as of December 31, 2001 and 2000 is classified in short term notes. The amount due to Communications Collateral Limited is secured on substantially all the Company's assets.

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TELEMONDE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2001, 2000 and 1999
(\$ amounts in thousands, except per share data)

(b) WorldCom

In December 1998 and March 1999, the Company entered into capacity purchase agreements with Worldcom valued at \$19,800 and \$6,500 respectively. The Company defaulted on the total liability under these agreements of \$26,300. In July 2000 an agreement was reached with WorldCom whereby \$9,000 of the outstanding debt due to WorldCom was exchanged for shares in the Company with an equivalent fair market value. As of December 31, 2001, the Company remains in default of its obligations under the capacity purchase agreements. The outstanding balance due to WorldCom under the capacity purchase agreements of \$17,300 and \$17,300 as of December 31, 2001 and 2000, respectively is classified in trade accounts payable.

(c) Global Crossing

In June 1998, the Company entered into a capacity purchase agreement with Global Crossing at a cost \$64,800. In December 1998, the Company entered into backhaul agreements and in November 1999 the Company entered into an international private line service agreement. The Company defaulted on its obligations under the capacity purchase agreement, the backhaul agreements and the international private line service agreement, resulting in the Company owing \$9,000 (plus related charges of \$2,911) for drawdown services, and having an outstanding obligation to draw down further capacity of \$ 42,930. In December 2000, the Company and Global Crossing entered into a standstill agreement to settle the terms of the Company's liabilities.

The standstill agreement provided for the extinguishment of liabilities in exchange for inventory, a new obligation to pay \$11,911 and 5,000,000 shares of the Company's Series A Convertible Preferred Stock. The Company defaulted on its obligations under the standstill agreement, and hence the remaining amount of \$11,436 due under the standstill agreement is immediately payable. Additionally, Global Crossing may take action to pursue debts arising under the original capacity purchase agreement amounting to \$42,930 plus accrued interest of \$7,526, calculated based on 3% over the One Month London Interbank Offered Rate for U.S. Dollars.

As of December 31, 2001 and 2000, the total liability amounted to \$50,341 and \$10,541 respectively. See Note 10.

(d) Gemini Submarine Cable System Limited

In April 1998, the Company entered into a capacity purchase agreement with Gemini Submarine Cable System Limited ("Gemini"). Under the terms of the

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capacity purchase agreement, as subsequently amended, the Company issued promissory notes to Gemini amounting to \$ 2,700. The Company has defaulted on its obligations under the promissory notes, giving Gemini the right to immediately terminate the Indefeasible Rights of Use granted to the Company. As of December 31, 2001 and 2000 the Company owed \$2,139 and \$1,825, respectively, under the promissory notes which is classified among trade accounts payable.

(e) Inland Revenue

As at December 31, 2001, the Company's liabilities to the United Kingdom Inland Revenue for payroll taxes and social security contributions amounted to \$2,152 (2000: \$1,137). The Company is in default with Inland Revenue, who may exercise their powers of enforcement over the settlement of liabilities, including petitioning for the winding up of the Company's UK subsidiaries.

(f) Other

The Company has guaranteed the obligations of a former customer to a supplier amounting to a maximum of \$1,700.

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