

Edgar Filing: TELEMONDE INC - Form 10-Q

TELEMONDE INC  
Form 10-Q  
August 13, 2001

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

-----  
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001  
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OR

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  
-----

(State or other jurisdiction of  
incorporation or organization)

62-1795931  
-----

(I.R.S. Employer  
Identification Number)

230 Park Avenue, 10th Floor, New York, New York  
-----

(Address of Principal Executive Offices)

10169  
-----

(Zip Code)

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

Indicate by check whether the registrant: (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes X No  
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As of August 1, 2001, Telemonde, Inc. had issued and outstanding 122,836,118  
shares of common stock, \$.001 par value per share.

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TELEMONDE, INC.  
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INDEPENDENT ACCOUNTANT'S REPORT

To the Stockholders of

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Telemonde Inc

We have reviewed the accompanying condensed consolidated balance sheet of Telemonde, Inc. and subsidiaries as of June 30, 2001, and the related consolidated statements of income and cash flows for the three and six month periods ended June 30, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet as of December 31, 2000 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended, not presented herein, and in our report dated February 17, 2001, we expressed an unqualified opinion with an explanatory paragraph on those consolidated financial statements. We reported that there is substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability of recorded assets, or the amounts of liabilities, that might be necessary in the event that the Company cannot continue in existence. In our opinion the information set forth in the accompanying consolidated balance sheet as of December 31, 2000 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

MOORE STEPHENS  
Chartered Accountants

St. Paul's House  
London EC4P 4BN  
August 9, 2001

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## PART I. - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS.

TELEMONDE, INC.  
Consolidated Balance Sheets  
(US Dollars expressed in thousands)

At June 30, 2001      At  
-----  
(Unaudited)

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Assets

Cash and cash equivalents	\$ 1,339
Trade accounts receivable, net of allowance for doubtful debts of \$2,197 in 2001 and \$2,025 in 2000	3,156
Prepayments and other debtors	3,013
	-----
Total current assets	7,508
Property, plant and equipment	16,829
Intangible assets	16,640
	-----
Total assets	\$ 40,977
	=====

Liabilities and stockholders' equity

Trade accounts payable	\$ 29,813
Other creditors and accrued expenses	10,852
Deferred income	2,640
Short term notes	12,282
	-----
Total current liabilities	55,587
	-----
Trade accounts payable non-current	6,000
	-----
Minority interests	89
	-----
Stockholders' equity	
Preferred stock	50
Common stock	123
Additional paid in capital	72,368
Retained deficit	(93,240)
	-----
Total stockholders' deficit	(20,699)
	-----
Total liabilities and stockholders' equity	\$ 40,977
	=====

See accompanying notes and independent accountant's report.

TELEMONDE, INC.

Consolidated Statements of Income  
(US Dollars expressed in thousands, except per share data)  
(unaudited)

Three months ended -----

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	June 30		
	2001	2000	2001
Revenues	\$ 3,832	\$ 18,603	\$ 18,603
Cost of sales	5,104	10,708	10,708
Gross margin	(1,272)	7,895	7,895
Operating expenses			
Selling, general and administrative expenses	2,998	5,510	5,510
Amortization of goodwill	989	959	959
Provision for contract terminations	2,500	0	0
Financing costs	50	2,074	2,074
Impairment of goodwill	6,632	2,212	2,212
Reserve for doubtful debts	279	0	0
Operating expenses	13,448	10,755	10,755
Operating loss	(14,720)	(2,860)	(2,860)
Other income (expense)			
Interest income	73	381	381
Interest expense	(493)	(232)	(232)
Share of loss of associate	0	(145)	(145)
Foreign exchange gains	113	362	362
Total other income (expense)	(307)	366	366
Loss before minority interests	(15,027)	(2,494)	(2,494)
Minority interests	22	(23)	(23)
Loss for the period	(15,005)	(2,517)	(2,517)
Loss per share - basic and diluted	\$ (0.13)	\$ (0.03)	\$ (0.03)

See accompanying notes and independent accountant's report.

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(unaudited)

	Six months ended June 30	
	2001	2000
	-----	-----
Operating activities		
Loss	\$ (17,822)	\$ (5,100)
Adjustments to reconcile loss to net cash provided by operating activities:		
Reserve for doubtful debts	220	
Amortization of goodwill	1,978	1,100
Depreciation	1,339	1,100
Fees satisfied by issuance of stock	1,445	800
Fees satisfied by issuance of short term notes	935	
Impairment of goodwill	5,000	2,000
Minority interests	(1)	
Goodwill of acquired subsidiary	0	(1,100)
Net assets of acquired subsidiary	0	
Unrealized gains on foreign currency transactions	(450)	
(Increase) decrease in trade accounts receivable	2,937	(5,100)
(Increase) decrease in prepayments and other debtors	6,390	(8,000)
Increase (decrease) in trade accounts payable	788	2,000
Increase (decrease) in accrued expenses	(1,573)	5,100
Increase (decrease) in deferred income	(955)	
Net cash provided by operating activities	----- 231	-----
Investing activities		
Purchase of property, plant and equipment	(55)	
Cash acquired on acquisition of subsidiary	0	
Net cash used in investing activities	----- (55)	-----
Financing activities		
Repayment of short term notes	(267)	
Proceeds from short term notes	0	2,000
Issuance of stock	0	
Net cash provided by (used in) financing activities	----- (267)	----- 2,000
Net increase (decrease) in cash and cash equivalents	(91)	2,000
Cash and cash equivalents beginning of period	1,430	-----
Cash and cash equivalents end of period	----- \$ 1,339	----- \$ 2,000
Supplemental disclosure of cash flow information:		
Interest paid	\$ 5	\$

See accompanying notes and independent accountant's report.

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TELEMONDE, INC.  
Notes to Consolidated Financial Statements  
June 30, 2001

1. Reference is made to the Notes to Consolidated Financial Statements contained in our December 31, 2000 audited consolidated financial statements included in our 2000 Annual Report and our 2000 Annual Report on Form 10-K filed with the SEC on April 2, 2001. In the opinion of Management, the interim unaudited financial statements included herein reflect all adjustments necessary, consisting of normal recurring adjustments, for a fair presentation of such data on a basis consistent with that of the audited data presented therein. The consolidated results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

2. In our Quarterly Report for the quarter ended September 30, 2000 filed on Form 10-Q with the SEC on November 14, 2000, we reflected a charge of \$3,247,000 arising from an amendment in the terms of a contract to provide bandwidth. The sale had originally been reflected as revenue with a related cost of sale in our Quarterly Report for the quarter ended March 31, 2000 filed on Form 10-Q/A-2 on August 15 2000. For the purpose of the comparative financial statements, we have reflected this change in the terms of the contract in the accompanying statement of income for the half year ended June 30, 2000. The effect of this restatement is a reduction to net income of \$1,337,000 in the quarter and \$4,584,000 in the half year.

3. At June 30, 2001, we had issued and outstanding 122,836,118 shares of common stock (fully diluted, 224,806,948) and 5,000,000 shares of preferred stock designated as Series A Convertible Preferred Stock ("Series A Preferred Stock"). At December 31, 2000, we had issued and outstanding 108,982,546 shares of common stock and 5,000,000 shares of Series A Preferred Stock. Each share of Series A Preferred Stock may be converted into approximately 4.6 shares of our common stock and carries voting rights equal to the voting rights and powers of the common stock. Holders of Series A 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 Series A 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. At our Annual Meeting of Stockholders on May 31, 2001, the stockholders approved an amendment to our Certificate of Incorporation (a) to increase the number of shares of common stock that we are authorized to issue from 145,000,000 to 475,000,000 and (b) to increase the number of shares of preferred stock that we are authorized to issue from 5,000,000 to 25,000,000.

4. The Financial Accounting Standards Board ("FASB") has issued Statement of Financial Accounting Standard ("SFAS") No. 128, "Basic and Diluted EPS." The calculation of basic earnings per share in accordance with SFAS No. 128 is as follows:

	Three months ended June 30 2001	2000
Loss attributable to common stockholders	\$(15,005,000)	\$ (2,517,000)
Average common shares issued and outstanding	113,050,188	105,726,821

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Basic and diluted loss per share	\$	(0.13)	\$	(0.03)
				Six months ended June 30
				2001
				2000
Loss attributable to common stockholders	\$	(17,822,000)	\$	(5,255,000)
Average common shares issued and outstanding		113,036,452		100,724,987
Basic and diluted loss per share	\$	(0.16)	\$	(0.06)

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

5. We follow 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 annual financial statements and requires selected information about operating segments in interim 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 a corporation'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.

Our reportable segments include bandwidth services, voice services (including emerging markets) and advisory services. "Other services" includes development businesses such as Internet services and other corporate charges and income and assets (including goodwill) not attributable to a specific segment. The following represents selected consolidated financial information for our segments:

	Bandwidth Services	Voice Services	Advisory Services	Other Services	Total
	-----	-----	-----	-----	-----

(US Dollars in millions)

Three months ended  
June 30, 2001

Revenues	5.1	1.5	(2.9)	0.1	3.8
Gross margin	0.7	(0.2)	(1.8)	-	(1.3)
Net loss	(1.1)	(0.9)	(2.3)	(10.7)	(15.0)

Three months ended  
June 30, 2000

Revenues	9.7	3.4	4.7	0.8	18.6
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Gross margin	2.8	(0.2)	4.7	0.6	7.9
Net loss	(0.1)	(1.8)	3.8	(4.4)	(2.5)

Six months ended  
June 30, 2001

Revenues	8.7	3.8	0.5	0.3	13.3
Gross margin	0.1	(0.5)	0.3	0.2	0.1
Net loss	(3.4)	(2.3)	(0.5)	(11.6)	(17.8)

Six months ended  
June 30, 2000

Revenues	16.5	4.6	4.7	1.4	27.2
Gross margin	6.0	(0.4)	4.7	(0.6)	9.7
Net loss	1.4	(2.8)	3.5	(7.3)	(5.2)

June 30, 2001

Total assets	17.5	2.6	2.0	18.9	41.0
--------------	------	-----	-----	------	------

December 31, 2000

Total assets	21.0	9.4	2.6	25.9	58.9
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6. The FASB has issued SFAS No. 130, "Comprehensive Income Reporting." In the three months ended June 30, 2001 and June 30, 2000, there were no components of comprehensive income for the Company other than net income.

7. In September 2000, the FASB issued SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 140 supersedes SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." It revised the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS 125's provisions without reconsideration. With some exceptions, this statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The adoption of this standard has not had a material impact on our results of operations.

8. In July 2001, the FASB issued SFAS No. 141 "Business Combinations". SFAS No. 141 addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, "Business Combinations" and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises". This standard eliminates the pooling-of-interests method of accounting for business combinations, requiring the purchase method of accounting. This standard also revises the measures for accounting for negative goodwill and establishing whether an intangible asset is a part of acquired goodwill. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. This Statement also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001. We do not believe that the adoption of this standard will have a material impact on our financial position or results of operations.

9. In July 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible

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Assets". SFAS No. 142 provides guidance on accounting for goodwill and intangible assets. This Statement requires that goodwill not be amortized. A reduction in goodwill will only result from an impairment test if the test reveals that the fair value of goodwill is below its carrying value. 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 annually tested for impairment (at a minimum). 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 No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001. Goodwill and intangible assets acquired after June 30, 2001, will be subject immediately to the nonamortization and amortization provisions of this Statement. We do not believe that the adoption of this standard will have a material impact on our financial position or results of operations.

10. Pursuant to a Standstill Agreement, we owe Global Crossing \$10 million for services supplied and not paid for. This is repayable as to \$4 million due on November 30, 2001 and \$6 million due on November 30, 2002. We have entered into a new commitment to purchase \$8 million of services from Global Crossing over the next five years at the prevailing market prices at the time of purchase. If we are unable to meet any of our obligations under the Standstill Agreement, Global Crossing may take action to pursue us for \$55 million under our original obligations to them.

11. 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 take delivery of four of these circuits resulting in a default of \$26.3 million.

12. Since December 1999, WorldCom has agreed not to take 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. Management is in negotiations with WorldCom to settle the remaining liability.

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13. 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 June 30, 2001 our outstanding debt to CCL was \$3.1 million. Interest is accruing on the outstanding amount at the rate of 12.5% per annum. We have agreed to repay the outstanding balance at a rate of \$100,000 per month but in any event as quickly as practicable. 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.

14. We have a debt obligation under a Capacity Purchase Agreement to Gemini. As at June 30, 2001, the outstanding debt was \$2.1 million. As at June 30, 2001, we had paid Gemini \$1.2 million, of which \$0.8 million had reduced the original principal sum. Interest is accruing at LIBOR plus 3%. Management is in continued discussion with Gemini regarding this debt.

15. On March 13, 2001, we entered into an agreement with Parrington Associates Limited whereby the company agreed to pay a commission of \$1,050,000 in consideration for services provided by Parrington Associates. The commission

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was satisfied by a cash payment of \$115,000 and notes payable of \$935,000. The notes bear interest at 1 per cent per month and are repayable in three installments ending on September 30, 2001. The notes are convertible into shares of Common Stock prior to September 30, 2001 at the option of Parrington Associates, based on a conversion price of \$0.15 per share.

16. On March 29, 2001, we entered into an agreement with Home Run Limited to extend the repayment period of the (Pounds)5.0 million (\$7.0 million) facility advanced by Home Run. The loan bears interest at LIBOR plus 2 per cent and is repayable on April 26, 2002. The loan is convertible into shares of our common stock prior to the repayment date at the option of Home Run, based on a conversion price of \$0.16 per share.

17. Negotiations are in progress with a third party which is both customer of and supplier to Telemonde with a proposal of a payment from the third party to terminate all contracts. A provision of \$2,500,000 is included in the Consolidated Statements of Income.

18. In accordance with the provisions of SFAS 121, we have reviewed the carrying value of goodwill for impairment. The review was based on the expected future operating cash flows from acquired businesses. The review indicated that there are significant uncertainties relating to the expected future cash flows from acquired businesses. We have made a provision of \$5 million against the carrying value of goodwill. We intend to have an external valuation of goodwill at 31 December 2001 in anticipation of the adoption of SFAS 142. As reported in our interim report for the first quarter of 2001, goodwill of \$1.6 million attributable to additional consideration for the acquisition of EquiTel Communications Limited has been written off.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

#### Forward-Looking Statements

This Quarterly Report on Form 10-Q 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. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will be achieved. The important factors that could cause actual results to differ materially from those in the forward-looking statements herein include certain risks identified in this Quarterly Report and other risks referenced from time to time in our filings with the SEC, including our 2000 Annual Report on Form 10-K filed with the SEC on April 2, 2001.

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

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Report and in our Annual Report on Form 10-K.

### Overview

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

Our principal areas of business are: the sale and management of telecommunications bandwidth, including the provision of internet transit services; switched voice services-both wholesale switching of international traffic and international route management; the provision of intelligent network services in emerging markets; Internet and related services and telecommunications advisory services. Our customers include leading global telecommunications carriers, public telephone operators in developing countries, Internet service providers, multimedia service providers and telecoms hotel developers. We seek to capitalize on the increasing demand for high quality international communications services which is being driven by the globalization of the world's economies, the worldwide trend towards telecommunications deregulation, the growth of voice, video, data and Internet traffic and the increase in the amount of co-location space (space where telecommunications operators house their networking equipment within telecoms hotels) required in various parts of the world.

Various of our services are supplied to customers in emerging markets or customers that wish to develop their services in emerging markets. We consider an emerging market to be a market where the telecommunications industry can be described as underdeveloped. An underdeveloped telecommunications industry is one that lacks the level of technological infrastructure or expertise as is prevalent in developed countries. Often this relates to countries where the state continues to own the public telephony operator and competition is limited. Emerging markets evolve from markets with strict barriers to entry, for example as a result of a particular political regime. Geographically such markets can be found in Eastern Europe, Africa, the Middle East, Asia-Pacific and Central and Latin America.

### Industry Trends

We believe that in the managed bandwidth and wholesale voice services markets, a rapid consolidation of companies operating in this sector is beginning. This consolidation is being driven by decreasing gross margins resulting in attempts by companies to reduce their costs and as a result, reducing the requirement for external sources of funding. This consolidation process is likely to see an emergence of profitable and funded companies in this sector in 2002.

High value will continue to be available in the emerging markets sector for an increasing number of communications supported services such as:

- . Telecoms hotel infrastructure.
- . Web hosting services including; data storage; server housing and support management; firewalls; IP delivery solutions; and contest mirroring.
- . Route Management.
- . Value adding voice services provided over existing access infrastructures.

Markets with high telephone line market penetration rates, predominantly Western Europe, North America, Japan and parts of the Asia-Pacific region, are likely to see the emergence of truly broadband access networks and the developments of

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user demand for focused services that address narrowly defined market segments with high quality video and audio programming on a subscription basis. This will lead to a continually developing range of content delivery solutions as the economics of the balance between bandwidth and storage of content continues to evolve. The ability to use assets in a variety of manners will be a key component for success.

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In the medium term, we believe that there will be a migration of broadcast video services to a subscription base of digital end-users, with the capability to edit out advertising. As a consequence, the advertisers will shift focus to addressing customers through niche programming over broadband access networks. These channels will become the new free to view channels. The broadcast subscription digital networks will carry mainstream programming, with advertisers using product placement as their channel to market.

With the continued globalization of the business of both services and manufacturing, we will see the development of geographically and culturally dispersed communities. We see a need for a comprehensive and targeted range of services including international voice, data services (including web hosting, data center and e-commerce services) and in particular content rich programming to "bond" these communities together as a single unique cultural entity with a clear sense of purpose and belonging.

### Operating Risks

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 June 30, 2001 we have incurred losses of \$93.2 million. Despite recognizing \$91.1 million in revenues, we incurred a deficit on total stockholders' equity of \$20.7 million for the period from March 10, 1998 through June 30, 2001. We may continue to incur losses and negative cash flow throughout 2001 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 payments, the issuance of debt and the proceeds from sales of shares of common stock.

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We have a substantial level of indebtedness.

We have incurred a high level of debt. As of June 30, 2001, we had a combined total liability of \$61.6 million, including: \$17.8 million due to WorldCom; \$10 million due to be repaid to Global Crossing as \$4 million in November 2001 and \$6 million in November 2002 and a loan from Home Run Limited of \$7.0 million convertible into shares of Common Stock at their option. We are also indebted to Communications Collateral Limited in the sum of \$3.1 million and Gemini in the sum of \$2.1 million.

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.

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- . 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.

### Results of Operations

For the three months ended June 30, 2001 compared with the three months ended June 30, 2000.

Revenues for 2001 fell by \$14.8 to \$3.8 million compared with \$18.6 million for 2000. Bandwidth revenues fell by \$4.6 million due to customers preferring leasing contracts compared with major bandwidth sales of \$7.9 million in 2000. Voice services revenue also fell by \$1.9 million, and advisory services reflected a \$7.6m shortfall. The actual revenue from advisory services in 2001 was \$0.1 million compared with \$4.7 million in 2000. However, a \$3.0 million reversal in the quarter for revenue included in the quarter to March 31, 2001 creates a negative revenue of \$2.9 million. The \$3.0 million revenue was included in the first quarter but due to recent uncertainties with the contracts we have decided to include revenues as they are invoiced and/or cash received. We now believe that this revenue will be earned in the third and fourth quarters of the year.

Cost of sales for 2001 fell by \$5.6 million to \$5.1 million compared with \$10.7 million for 2000 largely as a result of reduced revenue levels and mix.

Selling, general and administrative expenses were \$3.0 million in 2001 compared with \$5.5 million in 2000. The decrease of \$2.5 million consisted of \$0.9 million arising from cost reduction policies, \$0.6 million lower professional fees and a one off charge for share options of \$1.0 million in 2000.

Amortization of goodwill remained unchanged at \$1.0 million both 2001 and 2000.

In 2001 there was a provision of \$2.5 million relating to ongoing negotiations with a customer which is also a supplier which wishes to make a payment to us to buy itself out of all current contracts.

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Financing costs in 2001 were negligible compared with a \$2.1 million issue of shares in 2000 to professional financial advisers.

Impairment of goodwill at \$6.6 million was \$4.4 million higher than the 2000 figure of \$2.2 million. In order to prepare ourselves for the recent accounting standard SFAS 142 we have decided to implement a professional valuation of goodwill at 31 December 2001. Our interim review at June 30, 2001 reflects uncertainties regarding future cash flows from acquired businesses so we have made a provision of \$5.0 million, prior to the year end valuation, against the carrying value of goodwill. In addition we have charged the \$1.6 million arising from the issue of shares in respect of the first year earn out calculation in the contract to acquire EquiTel Communications Limited in November 1999.

There was a provision for a doubtful debt of \$0.3 million in 2001 with no similar provision in the previous year.

Interest income was down from \$0.4 million in 2000 to \$0.1 million in 2001 reflecting the completion of an installment sales contract which generated \$0.3 million of sales interest in 2000.

Interest expense increased to \$0.5 million in 2001 from \$0.2 million in 2000 reflecting the reliance on fixed borrowings.

Foreign exchange gains decreased to \$0.1 million in 2001 from \$0.4 million in 2000.

The loss for the three months ended June 30, 2001 was \$15.0 million compared with \$2.5 million in 2000.

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For the six months ended June 30, 2001 compared with the six months ended June 30, 2000.

Revenues for 2001 fell by \$13.9 million to \$13.3 million compared with \$27.2 million for 2000. Bandwidth revenues fell by \$7.8 million due to customers preferring leasing contracts compared with major bandwidth sales of \$10.9 million in 2000. There was also a reduction in voice services revenue of \$2.0 million offset by a \$1.2 million increase in attributable revenues arising from the acquisition of a 75% controlling interest in our Oman based subsidiary Desertel with effect from 1 April 2000. Advisory service revenues fell by \$4.2 million.

Cost of sales for 2001 fell by \$4.3 million to \$13.2 million compared with \$17.5 million for 2000 largely as a result of reduced revenue levels and mix.

Selling, general and administrative expenses were \$6.2 million in 2001 compared with \$8.6 million in 2000. The decrease of \$2.4 million consisted of \$0.9 million arising from cost reduction policies, \$0.6 million lower professional fees and charges for share options of \$0.9 million in 2000.

Amortization of goodwill increased marginally to \$2.0 million in 2001.

In 2001 there was a provision of \$2.5 million relating to ongoing negotiations with a customer which is also a supplier which wishes to make a payment to us to buy itself out of all current contracts.

Financing costs in 2001 were negligible compared with a \$2.1 million issue of shares in 2000 to professional financial advisers.

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There was a provision for a doubtful debt of \$0.4 million in 2001 with no similar provision in the previous year.

Impairment of goodwill at \$6.6 million was \$4.4 million higher than the 2000 figure of \$2.2 million. In order to prepare ourselves for the adoption of the recent accounting standard SFAS 142 we have decided to implement a professional valuation of goodwill at December 31, 2001. Our interim review at June 30, 2001 reflects uncertainties regarding future cash flows from acquired businesses so we have made a provision of \$5.0 million, prior to the year end valuation, against the carrying value of goodwill. In addition we have charged the \$1.6 million arising from the issue of shares in respect of the first year earn out calculation in the contract to acquire EquiTel Communications Limited in November 1999.

Interest income was down from \$0.5 million in 2000 to \$0.2 million in 2001 reflecting the completion of an installment sales contract which generated \$0.3 million of sales interest in 2000.

Interest expense increased to \$1.0 million in 2001 from \$0.7 million in 2000 reflecting the reliance on fixed borrowings.

Foreign exchange gains increased to \$0.6 million in 2001 from \$0.4 million in 2000.

The loss for the six months ended June 30, 2001 was \$17.8 million compared with \$5.3 million in 2000.

### Liquidity and Capital Resources

Our liquidity requirements arise from:

- . Purchases and maintenance of bandwidth capacity, network and switching equipment.
- . Development of intelligent network platforms, which includes pre-paid calling cards and other value-added telephony services.
- . Interest and principal payments on outstanding indebtedness.
- . Net cash used in operating activities.
- . Acquisitions of, and strategic investments in, businesses.

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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.

Net cash provided by operating activities was \$0.2 million in the six months ended June 30, 2001 compared with \$0.7 million in 2000.

Net cash used in investing activities in 2001 was \$0.1 million compared with \$0.4 million in 2000.

Net cash used in financing activities in 2001 of \$0.3 million reflecting repayment of short-term notes whereas cash provided in 2000 of \$2.5 million arose from additional short-term notes.

Since inception through June 30, 2001, we have incurred losses of \$93.2 million



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and have had negative cash flow from operating activities of \$17.9 million.

The level of indebtedness of \$61.6 million at June 30, 2001 has fallen marginally from \$62.6 million at December 31, 2000.

As a consequence of the significant fall of the market prices for bandwidth and its impact on our operations and financial results in 1999, 2000 and continuing in 2001, we have been unable to generate sufficient cash flow to meet certain of our debt service requirements. We have completed certain renegotiations and have made significant steps to reducing our debt service requirement.

Pursuant to a Standstill Agreement, we owe Global Crossing \$10 million for services supplied and not paid for. This is repayable as to \$4 million due on November 30, 2001 and \$6 million due on November 30, 2002. We have entered into a new commitment to purchase \$8 million of services from Global Crossing over the next five years at the prevailing market prices at the time of purchase. If we are unable to meet any of our obligations under the Standstill Agreement, Global Crossing may take action to pursue us for \$55 million under our original obligations to them.

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 take delivery of four of these circuits resulting in a default of \$26.3 million.

Since December 1999, WorldCom has agreed not to take 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. Management is in negotiations with WorldCom to settle the remaining liability.

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 June 30, 2001 our outstanding debt to CCL was \$3.1 million. Interest is accruing on the outstanding amount at the rate of 12.5% per annum. We have agreed to repay the outstanding balance at a rate of \$100,000 per month but in any event as quickly as practicable. 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.

We have a debt obligation under a Capacity Purchase Agreement to Gemini. As at June 30, 2001, the outstanding debt was \$2.1 million. As at June 30, 2001, we had paid Gemini \$1.2 million, of which \$0.8 million had reduced the original principal sum. Interest is accruing at LIBOR plus 3%. Management is in continued discussion with Gemini regarding this debt.

We entered into a convertible loan facility with Home Run Limited on April 27, 2000. Home Run provided us with a facility of pounds sterling 5.0 million (\$7.0 million). The repayment terms have been extended to April 26, 2002. The extension was granted on the basis of an adjustment to the conversion value based on the then current market price of our shares of Common Stock. The loan may now 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.

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At June 30, 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. We are seeking to raise additional equity in order to provide us with an increased capital base for the future and to enable us to meet debt as and when they fall due.

### ITEM 3. 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 because whilst most of our fees are earned in US dollars, many of our sales, general and administrative expenses are incurred in London in pounds sterling.

Revenues from joint ventures in emerging markets will be mainly received in the local currency of the country of operations (for example, in Omani rials in the case of Desertel). Much of the costs incurred are payable in the same local currency. However, there will be an exchange risk on the profit or loss of the local operations or joint venture arising from the fluctuation of the local currency, against the pounds sterling (in which currency central sales, general and administrative costs in London are mainly incurred).

## PART II. - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

From time to time, Telemonde is party to litigation or other legal proceedings that each company considers to be a part of the ordinary course of its business. Telemonde is not involved in any legal proceedings nor is it party to any pending or threatening claims that could reasonably be expected to have a material adverse effect on its financial condition or results of operations.

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

No securities of Telemonde which were not registered under the Securities Act of 1933, as amended (the "Securities Act"), have been sold by Telemonde during the second quarter of 2001, except as follows:

On May 11, 2000, Telemonde issued 12,434,286 shares of its common stock to the former shareholders of EquiTel Communications Limited as part of the contingent consideration arrangements set out in the purchase agreement dated November 8, 1999 with the former shareholders of EquiTel relating to the purchase of EquiTel.

An exemption has been claimed under Section 4(2) of the Securities Act.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Telemonde held its Annual Meeting of Stockholders on May 31, 2000. Proposals presented for a stockholder vote were: (1) the election of two persons to Class

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II of the Board of Directors; (2) the approval of an amendment to Telemonde's Certificate of Incorporation (a) to increase the number of shares of common stock that Telemonde is authorized to issue from 145,000,000 to 475,000,000 and b) to increase the number of shares of preferred stock that Telemonde is authorized to issue from 5,000,000 to 25,000,000; and (3) the ratification of the appointment of Moore Stephens, Chartered Accountants, as Telemonde's independent auditors for fiscal year 2001.

Each of the incumbent Class II Directors were elected with the following voting results:

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	Votes For	Votes Against
Adam N. Bishop	85,559,606	69,300
Miguel D. Tirado	85,559,606	69,300

The amendment to Telemonde's Certificate of Incorporation (a) to increase the number of shares of common stock that Telemonde is authorized to issue from 145,000,000 to 475,000,000 and b) to increase the number of shares of preferred stock that Telemonde is authorized to issue from 5,000,000 to 25,000,000 was approved with the following voting results:

Votes For	Votes Against
69,276,545	3,557,779

The appointment of Moore Stephens, Chartered Accountants, as Telemonde's independent auditors for fiscal year 2001 was ratified with the following voting results:

Votes For	Votes Against
84,888,494	740,523

### ITEM 5. OTHER INFORMATION.

On June 30, 2001 we closed down our internet services company - telemonde.net S.A. and made all of its staff redundant. telemonde.net offered a range of specialist internet services aimed at Internet Service Providers (ISPs) and Broadband Access Providers (BAPs) including content acquisition, programming and delivery capabilities. The decision to close down this operating unit was made after a thorough business review covering funding requirements and sales projections. We still believe that the business plan created by the management of telemonde.net remains valid, however the increasingly difficult climate in which ISPs and BAPs operate has hampered demand for our services. We do not see demand improving in the short term. All existing customer contracts (and their associated supplier agreements) have been transferred to our network operations subsidiary, Telemonde Networks Limited.

Due to our continuing cash flow difficulties, the executive officers have agreed to accept a 75% reduction in their salaries and a suspension of their employment contracts for a minimum period of six months effective August 1, 2001. The decision has been taken to assist in the reduction of overhead and improvement of our cash position. In addition, the compensation committee of the Board of Directors has agreed to consider appropriate methods of providing incentive-based compensation for the executive officers, based upon tangible increases in

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shareholder value.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

- (a) Exhibits required by Item 601 of Regulation S-K are incorporated herein by reference and are listed on the attached Exhibit Index.
- (b) No Reports on Form 8-K were filed during the second quarter of 2001.

### 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.

Date: August 10, 2001  
-----

/s/ ADAM N. BISHOP  
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Adam N. Bishop, President and  
Chief Executive Officer

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### EXHIBIT INDEX

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 Communications Limited among (1) Telcoworld Limited and others, (2) Telemonde, Inc., and (3) Harry Pomeroy and Larry Trachtenberg, dated November 8, 1999.
2.3*	Agreement and Plan of Merger of Telemonde, Inc., a Nevada corporation, into Telemonde, Inc., a Delaware corporation, dated October 29, 1999.
2.4*	Share Purchase Agreement for the Sale and Purchase of all the issued share capital of TGA (UK) 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.
4.1*	Form of Common Stock Certificate.

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- 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 2, 1999 and effective as of July 1, 1999.
- 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 to Telemonde International Bandwidth(Bermuda) Limited.
- 10.5\* Capacity Purchase Agreement between Atlantic Crossing Ltd. and Telemonde Bandwidth (Bermuda) Limited, dated June 10, 1998.

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Exhibit No.	Description
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

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Telemonde, Inc., Telemonde Networks Limited and Telemonde International Bandwidth Limited.

- 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.
- 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, dated 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 Communications 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 27, 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.

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Exhibit No. -----	Description -----
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

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Telemonde, Inc., Telemonde Bandwidth (Bermuda) Ltd., Global Crossing USA Inc., GT U.K. Ltd, GT Landing Corp. and Atlantic Crossing Ltd.

- 10.16++ Capacity Commitment Agreement, dated December 14, 2000, by and between Global Crossing Bandwidth Inc. and Telemonde Inc.
- 21+++ Subsidiaries of Registrant.
- \* 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.
- +++ Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31,2000, as filed with the SEC on April 2, 2001.