

Edgar Filing: TELEMONDE INC - Form 10-Q

TELEMONDE INC  
Form 10-Q  
August 15, 2002

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, 2002  
-----

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  
-----

62-1795931  
-----

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

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  
-----

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  No   
---

As of August 1, 2002, Telemonde, Inc. had issued and outstanding  
121,876,118 shares of common stock, \$.001 par value per share.

# Edgar Filing: TELEMONDE INC - Form 10-Q

TELEMONDE, INC.

## INDEX

	Page Number
	-----
PART I - FINANCIAL INFORMATION	
	3
Item 1.	3
Independent Accountant's Report	3
Financial Statements	
Consolidated Financial Statements:	
Consolidated Balance Sheets -	
June 30, 2002 and December 31, 2001	4
Consolidated Statements of Income -	
Three and six months ended	
June 30, 2002 and 2001	5
Consolidated Statements of Cash Flow -	
Six months ended	
June 30, 2002 and 2001	6
Notes to Consolidated Financial Statements	7
Item 2.	9
Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Forward-Looking statements	9
Introduction	10
Strategy	10
Operating Risks	10
Results of Operations	11
Liquidity and commitments	12
Item 3.	14
Quantitative and Qualitative Disclosures About Market Risk	14
PART II - OTHER INFORMATION	
Item 1.	14
Legal Proceedings	14
Item 2.	14
Changes in Securities and Use of Proceeds	14
Item 5.	14
Other Information	14
Item 6.	15
Exhibits and Reports on Form 8-K	15
Signatures	15
Exhibits index	15

## Edgar Filing: TELEMONDE INC - Form 10-Q

To the Stockholders of  
Telemonde Inc

We have reviewed the accompanying consolidated balance sheet of Telemonde, Inc. and subsidiaries as of June 30, 2002, and the related consolidated statements of income and cash flows for the three and six month periods ended June 30, 2002 and 2001. 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.

As discussed in note 1 to the financial statements, the Company has incurred accumulated losses of \$193.0 million and at June 30, 2002, total liabilities exceeded total assets of \$120.6 million. Management plans in this regard are disclosed in note 2. There is substantial doubt about the ability of the Company to continue as a going concern. Adjustments have been made to 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.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet as of December 31, 2001 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 April 11, 2002, 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 include 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, 2001 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 13, 2002

3

PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

TELEMONDE, INC.

# Edgar Filing: TELEMONDE INC - Form 10-Q

## Consolidated Balance Sheets (US Dollars expressed in thousands)

	At June 30 2002 (unaudited)	At December 31, 2001 (audited)
<b>Assets</b>		
Cash and cash Equivalents	\$ 21	\$ 21
Trade accounts receivable, net of allowance for doubtful debts of \$50 in 2002 and \$468 in 2001	105	105
Prepayments and other debtors	286	286
<b>Total current assets</b>	412	412
Property, plant and equipment	16	16
Investment in associated company	0	0
<b>Total assets</b>	\$ 428	\$ 428
<b>Liabilities and stockholders' equity</b>		
Trade accounts payable	73,066	72,804
Other creditors and accrued expenses	28,804	28,804
Deferred income	5,869	5,869
Short term notes	13,289	13,289
<b>Total current liabilities</b>	121,028	119,766
<b>Stockholders' equity</b>		
Preferred stock	50	50
Common stock	122	122
Additional paid in capital	72,257	72,257
Retained deficit	(193,029)	(189,536)
<b>Total stockholders' deficit</b>	(120,600)	(117,007)
<b>Total liabilities and stockholders' equity</b>	\$ 428	\$ 428

See accompanying notes and independent accountants' report

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

Three months ended  
-----

Edgar Filing: TELEMUNDE INC - Form 10-Q

	June 30		
	2002	2001	
	-----	-----	
Revenues	\$ 824	\$ 2,764	\$
Cost of sales	534	4,103	
Gross margin	----- 290	----- (1,339)	-----
Operating expenses			
Selling, general and administrative expenses	981	2,856	
Amortization of goodwill	0	879	
Provision for contract terminations	(228)	2,500	
Financing costs	0	50	
Impairment of goodwill	0	6,632	
Impairment of investment	0	0	
Bad and doubtful debts	33	279	
Operating expenses	----- 786	----- 13,196	-----
Operating loss	----- (496)	----- (14,535)	-----
Other income (expense)			
Interest income	0	73	
Interest expense	(891)	(493)	
Foreign exchange gains	(688)	113	
Total other income (expense)	----- (1,579)	----- (307)	-----
Loss for the period from continuing operations	(2,075)	(14,842)	
Discontinued operations	0	(163)	
Loss for the period	----- (2,075)	----- (15,005)	-----
Loss per share - basic and diluted			
Continuing Operations	(\$0.02)	(\$0.13)	
\$ (0.01) \$ (0.03)	-	(\$0.00)	
Discontinued operations	-----	-----	-----
Loss for the period	(\$0.02)	(\$0.13)	

See accompanying notes and independent accountant's report.

5

TELEMONDE, INC.  
 Consolidated Statements of Cash Flow  
 (US Dollars expressed in thousands)  
 (Unaudited)

	Six months ended June 30	
	2002	2001
	-----	-----
Operating activities		
Loss	\$ (3,200)	\$ (17,822)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:		
Bad and doubtful debts	604	220
Amortization of goodwill	-	6,978
Depreciation	178	1,339
Fees satisfied by issuance of stock	-	1,445
Fees satisfied by issuance of short term notes	-	935
Minority interests	-	(1)
Unrealized gains on foreign currency transactions	200	(450)
Decrease in investment in associated company	180	-
(Increase) decrease in trade accounts receivable	699	2,937
(Increase) decrease in prepayments and other debtors	(32)	6,390
Increase (decrease) in trade accounts payable	377	788
Increase (decrease) in accrued expenses	556	(1,573)
Increase (decrease) in deferred income	186	(955)
	-----	-----
Net cash provided by (used in) operating activities	(252)	231
	-----	-----
Investing activities		
Purchase of property, plant and equipment	-	(55)
	-----	-----
Net cash used in investing activities	-	(55)
	-----	-----
Financing activities		
Repayment of short term notes	-	(267)
Proceeds from short term notes	247	-
	-----	-----
Net cash provided by (used in) financing activities	247	(267)
	-----	-----
Net cash provided by discontinued operations	0	0
	-----	-----
Net increase (decrease) in cash and cash equivalents	(5)	(91)

## Edgar Filing: TELEMONDE INC - Form 10-Q

Cash and cash equivalents beginning of period	26	1,430
	-----	-----
Cash and cash equivalents end of period	\$ 21	\$ 1,339
	=====	=====

Supplemental disclosure of cash flow information:

Interest paid	\$ -	\$ 5
---------------	------	------

See accompanying notes and independent accountants' report

6

TELEMONDE, INC.  
Notes to Consolidated Financial Statements  
June 30, 2002

1. The financial statements have been prepared on the basis that we may not be able to continue as a going concern. Adjustments have been made in these Financial Statements to reduce the carrying value of assets to estimated recoverable amounts, and to reclassify liabilities on this basis. As at June 30, 2002, we had a retained deficit of \$193.0 million and an excess of liabilities over assets of \$120.6 million.

2. There is substantial doubt about our ability to continue as a going concern. Management is addressing the ongoing solvency of the company including cutting costs, seeking fresh financing and the focussing on the provision of high-margin advisory services to the telecommunications sector. 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. Our UK subsidiary companies have recently reached voluntary agreements with their creditors under Part I of the Insolvency Act 1986 (similar to Chapter 11 protection). This agreement is binding on all creditors and was accepted by the vast majority in each case, including all the principal creditors by value.

3. In 1998, Telemonde Bandwidth (Bermuda) Limited agreed to acquire 16 STM-1 transatlantic IRU telecommunications circuits for an agreed price of approximately \$64.8 million from Atlantic Crossing Limited (a Global Crossing subsidiary). As of June 30, 2002, 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

## Edgar Filing: TELEMONDE INC - Form 10-Q

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 (pound)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. Detailed negotiations concerning how the value would be provided between the third party and Global Crossing were in progress when Global Crossing sought 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 \$62.3 million.

4. 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 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

7

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 intended to seek to renegotiate a standstill once the Global Crossing liability has been settled. On July 21, 2002, WorldCom filed voluntary petitions for reorganization under Chapter 11 of the US Bankruptcy Code. The position therefore is uncertain, nevertheless, it is Management's intention to ask WorldCom to relieve us of this liability when WorldCom are in a position to agree to such a request.

5. 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, 2002 our outstanding debt to CCL was \$3.3 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. There is also a penalty payment of \$2 million due for failure to issue these as free trading shares.

6. We have a debt obligation under a Capacity Purchase Agreement to Gemini. As at June 30, 2002, the outstanding debt was \$2.2 million. As at June 30, 2002, 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%.

7. At June 30, 2002, our principal UK trading subsidiaries had debt liabilities to the Inland Revenue, the collector of payroll taxes in the United Kingdom, in the amount of \$2.4 million.



## Edgar Filing: TELEMONDE INC - Form 10-Q

8. Reference is made to the Notes to Consolidated Financial Statements contained in our December 31, 2001 audited consolidated financial statements included in our 2001 Annual Report on Form 10-K filed with the SEC on April 19, 2002. 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.

9. At August 1, 2002, we had issued and outstanding 121,876,118 shares of common stock and 5,000,000 shares of preferred stock designated as Series A Convertible Preferred Stock ("Series A Preferred Stock"). This has not changed since December 31, 2001. 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.

10. 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 30 June 2002	30 June 2001
Loss attributable to common stockholders	\$ (2,075,000)	\$ (15,005,000)
Average common shares issued and outstanding	121,876,118	113,050,186
Basic and diluted loss per share	\$ (0.02)	\$ (0.13)
	Six months ended 30 June 2002	30 June 2001
Loss attributable to common stockholders	\$ (3,200,000)	\$ (17,822,000)

8

Average common shares issued and outstanding	121,876,118	113,036,452
Basic and diluted loss per share	\$ (0.03)	\$ (0.16)

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

11. On March 29, 2001, we entered into an agreement with Home Run Limited to extend the repayment period of the (pound)5.0 million (\$7.5 million) facility advanced by Home Run. The loan bears interest at LIBOR plus 2 per cent and was repayable on April 26, 2002. Management is in discussion with Home Run Limited regarding the extension of this facility. The loan is convertible into shares of

## Edgar Filing: TELEMONDE INC - Form 10-Q

our common stock at the option of Home Run, based on a conversion price of \$0.16 per share.

12. In May 2001, we sold our remaining interest in Desert Telecommunications Services LLC. The operations of Desert Telecommunications Services LLC have been reported separately as discontinued operations in the accompanying financial statements.

13. In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of Statement No. 13, and Technical Corrections." SFAS No. 145, rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and also rescinds an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". This Statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers", and amends SFAS No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. We do not believe the adoption of SFAS 145 will have a material impact on the results of our operations.

14. On August 9, 2002, voluntary arrangements for the satisfaction of outstanding debts were agreed between our principal UK trading subsidiaries, Telemonde Networks Limited, EquiTel Communications Limited and Telemonde Finance Limited and their respective creditors and members. In the event that one or more of these companies fails to make the necessary payments, the insolvency practitioners appointed may seek to liquidate the relevant company. Nevertheless, this provides certain stability for the UK operations and management believes that this is the fairest way of securing an even distribution to the creditors of these subsidiaries. The voluntary arrangements were supported by virtually all creditors including all the most significant by value.

### 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 2001 Annual Report on Form 10-K filed with the SEC on April 19, 2002.

## Edgar Filing: TELEMUNDE INC - Form 10-Q

You should read the following discussion and analysis together with our Financial Statements, including the notes, appearing elsewhere in this Quarterly Report and in our Annual Report on Form 10-K.

### Introduction

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

Our principal areas of business are switched voice services and telecommunications advisory services. Our customers include telecommunications carriers, telecoms hotel developers and investors in telecommunication companies. We have substantially wound down our trading activities. Whilst certain residual business continues, we are concentrating on high-value advisory work.

### 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.

### 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. We have incurred operating losses and negative cash flow since our inception. From the date of inception to June 30, 2002 we have incurred losses of \$120.6 million. We have incurred a deficit on total stockholders' equity of \$193.0 million for the period from March 10, 1998 through June 30, 2002. We may continue to incur losses and negative cash flow in the foreseeable future.

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 primarily by way of short-term financing and the proceeds from sales of shares of common stock.

We have a substantial level of indebtedness.

We have incurred a high level of debt. As of June 30, 2002, we had a combined total liability of \$121.0 million, including: \$17.3 million due to WorldCom;

## Edgar Filing: TELEMONDE INC - Form 10-Q

\$50.3 million due to Global Crossing and a loan from Home Run Limited of \$7.5 million convertible into shares of Common Stock at their option. We are also indebted to Communications Collateral Limited in the sum of \$3.4 million, Gemini in the sum of \$2.2 million and the Inland Revenue (the UK collector of taxes) in the sum of \$2.4 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.

10

- . 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 or continue our current business and may cause us to cease trading. Our principal UK trading subsidiaries have reached voluntary agreements with their creditors in order to avoid being wound up and to assist an even repayment of sums owed. Failure to generate sufficient funds to make the relevant payments under the arrangement will result in one or more of the UK subsidiaries being wound-up.

### Results of Operations

For the three months ended June 30, 2002 compared with the three months ended June 30, 2001.

Revenues for 2002 were \$0.8 million compared with \$2.8 million for 2001. Bandwidth revenues from existing contracts were \$0.4 million compared with \$5.1 million for 2001. Voice services revenues fell to \$0.2 million from \$0.4 million in 2001 and advisory services revenues were \$0.3 million with no comparative in 2001.

Cost of sales for 2002 fell to \$0.5 million compared with \$4.1 million for 2001 largely as a result of the reduced revenue levels on bandwidth and voice services.

Selling, general and administrative expenses were \$1.0 million in 2002 compared with \$2.9 million in 2001. The decrease of \$1.9 million consisted mainly of \$0.9 million arising from lower staffing costs and \$0.5 million lower professional fees.

As goodwill has been fully written off there was no charge for amortization or impairment of goodwill in 2002 compared with \$0.9 million and \$6.6 million respectively in 2001.

Gains arising from contract negotiations with customers were \$0.2 million in 2002 compared with a loss provision of \$2.5 million in 2001.

The bad and doubtful debt charge was negligible in 2002 compared with the \$0.3 million charge in 2001.

## Edgar Filing: TELEMONDE INC - Form 10-Q

There was no interest income in 2002 compared with \$0.1 million in 2001.

Interest expense increased to \$0.9 million in 2002 compared with \$0.5 million in 2001 due to accrual of interest on a supplier debt.

Foreign exchange losses were \$0.7 million in 2002 compared with gains of \$0.1 million in 2001 due to the deterioration in value of the US dollar in the quarter.

The loss for the three months ended June 30, 2002 was \$2.1 million compared with \$15.0 million in 2001.

For the six months ended June 30, 2002 compared with the six months ended June 30, 2001.

Revenues for 2002 were \$1.8 million compared with \$10.9 million for 2001. Bandwidth revenues from existing contracts were \$1.0 million compared with \$8.7 million for 2001. Voice services revenues fell to \$0.5 million from \$1.4 million. Advisory services revenues were \$0.3 million compared with \$0.5 million in 2001.

Cost of sales for 2002 fell to \$1.2 million compared with \$11.2 million for 2001 largely as a result of the reduced revenue levels on bandwidth and voice services.

11

Selling, general and administrative expenses were \$2.0 million in 2002 compared with \$5.9 million in 2001. The decrease of \$3.9 million consisted mainly of \$1.8 million arising from lower staffing costs and \$1.0 million lower professional fees.

As goodwill has been fully written off there was no charge for amortization or impairment of goodwill in 2002 compared with \$1.8 million and \$6.6 million respectively in 2001.

Gains arising from contract negotiations with customers were \$1.2 million in 2002 compared with a loss provision of \$2.5 million in 2001.

There was an impairment adjustment to investments of \$0.1 million in 2002 with no comparative in 2001.

The bad and doubtful debt charge was \$0.6 million in 2002 compared with the \$0.4 million in 2001.

There was no interest income in 2002 compared with \$0.2 million in 2001.

Interest expense increased to \$1.8 million in 2002 compared with \$1.0 million in 2001 due to accrual of interest on a supplier debt.

Foreign exchange losses were \$0.4 million in 2002 compared with gains of \$0.6 million in 2001 due to the deterioration in value of the US dollar in the half year.

The loss for the six months ended June 30, 2002 was \$3.2 million compared with \$17.8 million in 2001.

Liquidity and commitments

Our liquidity requirements arise from:

## Edgar Filing: TELEMONDE INC - Form 10-Q

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

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. In order to prevent any of the UK trading companies being wound up, the relevant Directors took steps to reach agreement with their creditors to ensure that all creditors were treated equitably and not prejudiced by the act of a single creditor. Telemonde Inc has agreed, as far as it is able, to provide funds to support the voluntary arrangements. 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, other than in the normal course which can be satisfied as they occur.

Net cash used in operating activities was \$0.3 million in the six months ended June 30, 2002, compared with \$0.2 million provided in the six months ended June, 30, 2001.

No cash was used in investing activities in 2002 compared with \$55 thousand in 2001.

Net cash provided by financing activities was \$0.2 million in 2002 compared with \$0.3 million used in 2001.

Since inception through June 30, 2002, we have had negative cash flow from operating activities of \$20.4 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.

12

The level of indebtedness at June 30, 2002 is \$121.0 million.

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 2001 and continuing in 2002 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 approximately \$64.8 million from Atlantic Crossing Limited (a Global Crossing subsidiary). As of June 30, 2002, 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

## Edgar Filing: TELEMONDE INC - Form 10-Q

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 (pound)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. Detailed negotiations concerning how the value would be provided between the third party and Global Crossing were in progress when Global Crossing sought 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 \$62.3 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 intends to seek to renegotiate a standstill once the Global Crossing liability has been settled, however whilst WorldCom is the subject of Chapter 11 reorganization under the US Bankruptcy Code it is unlikely that a settlement will be reached.

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, 2002 our 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.

## Edgar Filing: TELEMONDE INC - Form 10-Q

We have a debt obligation under a Capacity Purchase Agreement to Gemini. As at June 30, 2002, the outstanding debt was \$2.2 million. As at June 30, 2002, 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 entered into a convertible loan facility with Home Run Limited on April 27, 2000. Home Run provided us with a facility of \$7.5 million. This sum was 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 June 30, 2002 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.

There is substantial doubt about our ability to continue as a going concern.

### 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.

## 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

On May 20, 2002, 1,750,000 shares of common stock owned by Ahmed Bin Fareed Al Aulaqui were surrendered to us as part of the sale of our remaining stake in Desert Telecommunications Limited.

### ITEM 5. OTHER INFORMATION.



Edgar Filing: TELEMONDE INC - Form 10-Q

On August 9, 2002, our principal UK trading subsidiaries, Telemonde Networks Limited, EquiTel Communications Limited and Telemonde Finance Limited reached voluntary arrangements with their creditors and members under Part 1 of the Insolvency Act 1986. The proposals were agreed by virtually all of the creditors including all the principal creditors by value. The arrangements will be supervised by K S Tan, 10/12 New College Parade, Finchley Road, London NW3 5EP. In the event of a failure of a subsidiary to comply with the terms of the voluntary arrangement, the supervisor may petition for the company to be liquidated.

14

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.

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 13, 2002 /s/ ADAM N. BISHOP
Adam N. Bishop, President and Chief Executive Officer

This report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934. The information contained in this report fairly presents in all material respects the Registrant's financial condition and results of operations as of the periods stated.

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

/s/ KEVIN MAXWELL
Kevin Maxwell, Chairman and Director

/s/ ALAN THOMPSON
Alan Thompson, Corporate Controller and Executive Vice President of Finance

EXHIBIT INDEX

Exhibit No. Description

## Edgar Filing: TELEMONDE INC - Form 10-Q

- 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.

15

- 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.
- 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.

## Edgar Filing: TELEMONDE INC - Form 10-Q

- 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.
- 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.
- 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.
- 16
- 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.

## Edgar Filing: TELEMONDE INC - Form 10-Q

- 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.
- 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 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

## Edgar Filing: TELEMONDE INC - Form 10-Q

++ 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 Annual Report for the year ended December 31, 2001 on Form 10-K, as filed with the SEC on April 19, 2002.