INFONET SERVICES CORP
Form 10-K
June 26, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended March 31, 2003 or

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

Commission File Number: 001-15475

INFONET SERVICES CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**95-4148675**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

2160 East Grand Avenue, El Segundo, California 90245-1022

(Address of Principal Executive Offices)

(310) 335-2600

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Class B common stock, $0.01 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period as 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 ¨

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes x No ¨

The aggregate market value of Class B common stock held by non-affiliates of the Registrant as of September 27, 2002 was approximately $134.4 million based on the closing price on the New York Stock Exchange on September 27, 2002 of $2.18.

The number of shares of the registrant s Class B common stock, par value $.01 per share, that was outstanding as of June 20, 2003 was 302,430,880. The number of outstanding shares of the Registrant s Class A common stock, par value $.01 per share, was 161,403,358 as of June 20, 2003, all of which are held by affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 10, 11, 12, 13 and 15 of Part III is incorporated by reference to portions of the registrant s definitive proxy statement for the 2003 Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended March 31, 2003.

INFONET SERVICES CORPORATION

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PART I

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Investors are cautioned that certain statements contained in or incorporated by reference into this Annual Report on Form 10-K, or which are otherwise made by us or on our behalf are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements that are predictive in nature and that depend upon or refer to future events or conditions, and can be identified by terminology such as believes, plans, anticipates, estimates, expects, may, potential, continue or expressions or the negative of these or similar expressions. In addition, we, through our management, from time to time make written and oral forward-looking statements concerning future financial performance, ongoing business strategies or prospects, and possible future actions. Any forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about our company, economic and market factors and the industry in which we do business, among other things. These statements are not guaranties of future performance and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. Factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements, include, but are not limited to, those discussed under the subheading Risk Factors and elsewhere in this Annual Report on Form 10-K.

Item 1. ***Business***

We were incorporated under the laws of the State of Delaware in March 1988. Our fiscal year is the 52- or 53-week period ending on the Friday nearest to March 31. For simplicity of presentation, we refer to the 52-week periods ended March 30, 2001, March 29, 2002 and March 28, 2003 as the years ended March 31, 2001, 2002 and 2003, respectively. Our Internet website address is *www.infonet.com*. We make our periodic and current reports, together with any amendments, available on our website, free of charge, as soon as reasonably practicable after we electronically file or furnish the report to the Securities and Exchange Commission.

Overview

We are a leading provider of cross-border managed data communications services for over 2,600 multinational enterprises. Of these enterprises, over 1,800 are our clients, including 29% of Fortune s Global 500 for 2002, and we service the remainder indirectly through our alternate channels, which consist of major international telecommunications carriers and value-added resellers. Our network, which we refer to as The World Network, can be accessed from over 180 countries, making it one of the world s largest secure data communications networks in terms of geographic coverage. We use the World Network to provide managed data services to our clients on a global basis, an advantage over service providers that do not own an extensive global network. Our country representatives give us a significant local presence in over 70 countries and territories and strong working relationships with leading local telecommunications providers in these countries. Our diverse client base is comprised of multinational enterprises that require cross-border managed data communications services.

We offer a broad range of integrated service solutions to our clients, such as:

Network Services which include Intranet, Internet, Multimedia and Wireless/Remote Access services;

Consulting, Integration and Provisioning Services which include consulting, design, installation and implementation of each client s particular networking needs; satellite connectivity; and our Global Connect services, whereby we install and manage leased lines and customer premise equipment at the client s site to enable the client to access The World Network and use our Network Services;

Applications Services which include messaging, collaboration, managed extranet, call center, security and other value-added services; and

Other Communications Services which include X.25 transport services and other communications services.

We take a consultative, applications-oriented approach to identifying client needs and developing customized solutions. In addition, we offer a consolidated billing, management and support system that provides a complete solution for all of the external and internal data communications services that our multinational clients require. Our approach is to integrate our full range of services with the data communications and network operations of our clients. We believe that our ability to provide a comprehensive solution to our clients gives us a key competitive advantage over other data service providers who would have to make a significant investment of time and money in order to replicate our approach.

We own and operate The World Network, an extensive and versatile network that provides the delivery platform for our integrated, enterprise-wide communications solutions. This global private network enables our clients to deploy and manage applications effectively by combining reliability, security, high performance and a broad range of functions using a variety of network protocols.

Our global country representative sales and support structure gives us a strong presence in each of our geographic markets. We believe this structure also provides us with a competitive advantage over other data service providers who do not have comparable levels of expertise regarding local operating, regulatory and market conditions.

Our current stockholders include six of the world s largest telecommunications companies, which, through ownership of our Class A and Class B common stock, collectively possess over 95% of our total voting power. They are:

KDDI KDDI Corporation (Japan);

KPN KPN Telecom B.V. (The Netherlands);

Swisscom Swisscom AG (Switzerland);

Telefonica Telefonica International Holding B.V. (Spain);

Telia Telia AB (Sweden); and

Telstra Telstra Corporation Limited (Australia).

Market Opportunity

Industry Drivers

We believe that enterprises are facing unprecedented challenges of managing cost, complexity and risk in the information technology and telecommunications environment. According to IDC, a leading research analyst firm, demand for bandwidth continues to increase as more applications and more users rely on network-based services. Additionally, in response to economic pressures and to keep pace with continually changing network technologies, we believe that many enterprises are turning to managed data communications providers to fulfill their network requirements. IDC, as well as other research analysts, are projecting compound annual growth rates in the managed data communications sector for intranet services in excess of 10% in 2003 and 2004. Moreover, according to IDC research, at least 30% of medium and large enterprises are planning to increase the level of outsourcing for management of wide area network customer premise equipment, security and end-to-end management.

We believe that this growing market provides an attractive opportunity for marketing managed data communications services to multinational enterprises that are attempting to address their mission-critical global communications needs. We believe that these enterprises require integrated solutions that span multiple countries, have guaranteed network availability, can deliver continuous increases in speed and capacity and provide local service and support. We believe that the demand for these managed data services is driven by the following factors:

- the globalization of business and increased need for international connectivity;
- the rapid expansion of Internet protocol, or IP, based applications;
- the rising importance of data communications as a service critical to a corporation s success; and
- the increased outsourcing of corporate data communications.

Globalization of business and increased need for international connectivity. Over the past several decades, corporations have significantly increased the international scope of their businesses. In connection with this geographic expansion, corporations have opened and made direct investments in branch offices, factories and other local representative facilities around the globe. It is critical for these corporations to share information accurately and expediently among their geographically dispersed locations, as well as with their traveling and telecommuting employees. New technologies and advanced remote access alternatives are enabling these companies to connect their geographically dispersed offices and employees to corporate and public networks at greater speeds, as well as from more varied locations.

Rapid expansion of Internet-based applications. IP-based applications, including Web-enabled extranets, enterprise applications such as Enterprise Resource Planning, or ERP, Supply Chain Management, or SCM, and Customer Relationship Management, or CRM, are, we believe, rapidly expanding as an important medium for global communications and e-commerce with the potential to connect a large number of geographically dispersed offices, employees, customers, suppliers and partners. These Internet-based applications have emerged as a strategic component of business. Given both the significant investment often made in enterprise applications and the importance of their performance for highest return on investment, many companies have turned to a private, fully managed network to complement their use of the public Internet. While the public Internet appears to have an attractive price proposition, we believe that its lack of reliability and security for mission-critical data communications has caused many corporations to seek assistance from service providers and data network companies to enhance the quality of their Internet communications or to design and implement high performance private networks.

Rising importance of data communications as a service critical to a corporation s success. We believe that businesses are investing in data networks to achieve higher levels of productivity and lower operating expenses. Increasingly, corporate intranets, public Internet Web sites, extranets and other managed data networks are creating competitive advantages for companies that use them to foster internal communications and e-commerce, recruit new employees, communicate with customers, penetrate new market segments and collect market information. In our experience, corporations require that their networks deliver data quickly, consistently and, in many cases, globally. In addition, they want the flexibility to upgrade their networks to keep pace with the growing complexity of their applications and changing technologies. Many of these corporations also require networks that operate 24-hours a day, seven days a week, and that offer application support together with a broad range of functions, such as security, remote access and reliability.

Increased outsourcing of corporate data communications. We believe that enterprises are focusing their resources on their core competencies and increasingly outsourcing their networking needs. Maintaining in-house private corporate networks is costly, requiring large investments in both resources and personnel, and difficult because of the need to keep up with technological change. We believe that the ongoing expansion of multinational businesses and new developments in technology have made it difficult for in-house solutions to keep pace with corporate needs. Therefore, enterprises have turned to third parties who can provide managed

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data communications services on a more efficient basis. Given the costs and difficulties involved in implementing international network solutions, we expect that multinational enterprises will increasingly outsource their cross-border data communications needs.

Business Strategy

Our goal is to be the leading provider of global managed data communications services to multinational enterprises. We currently expect to pursue the following strategic aims:

Continue to focus on multinational clients that require data communications solutions

We expect to continue to focus on multinational enterprises with cross-border managed data communications needs. We believe that the rapid pace of technological change, and the resultant complexity of, and resources necessary to, maintain network communications services are causing large multinational enterprises to outsource their data communications services so they can focus their resources on their core competencies. Our flexible network architecture, local presence in more than 70 countries and territories and consultative sales approach allow us to tailor our data communications solutions to meet our clients needs. Given the global reach of our network, our local support services and our reputation for reliable and innovative services, we believe we can further penetrate the market for global managed data communications services. Correspondingly, as part of our strategy, we plan to continue our public relations and industry analyst program to increase awareness of our services and the Infonet brand. We may also target other companies that service multinational clients for acquisition so that we can increase our client base and supplement our service offerings.

Strengthen our sales and customer support structure

Our country representatives play a vital role in the sales and marketing, local client support and implementation of our services on a global basis. Since we own all or a portion of only a few strategic country representatives, we have been able to expand geographically without the related financial and managerial costs associated with building large numbers of wholly-owned multinational sales and support organizations. We are constantly upgrading the skills of our country representatives as well as evaluating new opportunities to expand our sales channels through the addition of new country representatives and alternate sales channel partners. Our strategy is to capitalize on the strength of our country representatives and alternate sales channel partners to build market share among multinational enterprises.

Upgrade and expand our global network

We intend to continue to expand and technologically enhance The World Network to maintain our competitive advantage and to service our clients. As part of this strategy, we seek to decrease costs by deploying metropolitan fiber networks in key cities around the world and deploying additional network infrastructure within certain countries. We believe our increased investments in optical technology, our plans to evolve the backbone of The World Network towards a next-generation multi-service switching platform, and our growing support for alternate access methods will enable us to offer a broader range of value-added services that capitalize on the convergence of voice, video and data communications services. We have launched our Multi Protocol Label Switching, or MPLS, networking capability for IP Virtual Private Networks, or VPNs (both public and private), along with a comprehensive Class of Service offering, available across all Wide Area Network protocols. We also continue to develop our managed security solutions, which assist our clients in leveraging the public Internet, greatly increasing the reach of our global networking capabilities.

Improve profitability by increasing sales while at the same time controlling costs

We plan to improve profitability by increasing sales while at the same time controlling our costs. We expect to continue our dual sales strategy of selling additional services to existing clients and attracting new clients to use our service offering. We plan to pursue this strategy while at the same time implementing several initiatives

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that are intended to lower both direct and indirect expenses. For example, we have initiatives designed to lower local access costs by expanding our in-country reach in certain high-traffic locations. In addition, we have plans to lower our indirect expenses by leveraging our existing infrastructure and employee base across a broader base of operations. We are also making calculated investments in tools that are designed to create greater efficiencies across our enterprise. We believe that these measures will help us improve profitability and allow us to operate our business more efficiently.

Provide the highest level of quality and reliability for our services

We are committed to maintaining the highest level of quality and reliability in delivering data communications services over our network. Using our network management tools and systems, we are able to proactively monitor our global network operations and respond quickly to client problems, 24-hours a day, seven days a week. We have consistently met or exceeded our quality standards. In addition, we support our clients through our extensive local operations and certified help desks. To ensure this quality, we continue to make investments in client service and support, and continually evaluate our performance, including via electronic customer satisfaction surveys, in order to ensure our valued clients satisfaction. We also continue to hire and train experienced and technically sophisticated network support and services personnel. Our commitment to providing high quality services is evidenced by our receipt of numerous industry awards, including the World Communication Awards 2002 for Best Carrier. In June 2003, we were named Best in Class for the sixth consecutive time in a report and analysis of global service providers undertaken by Telemark Consulting Ltd., and we received the Network & Telecom 2002 Annual Enterprise Award, reader s choice award, for Best Corporate Telecom Provider. In addition, we have received recognition from others in the industry including, among others, The Public Relations Society of America s Bronze Anvil Award, MIT s award for Communications Technology and The Sabre award for excellence in media relations.

Develop value-added services to meet our clients needs

We are committed to developing innovative products designed to meet our clients needs. Consistent with our awareness that client applications are broader than software, and include voice and video, we continue to evolve our converged service offerings so we can provide our clients with a complete solution to meet all of their network services needs. In addition, we have launched our IP VPN Secure service. This service uses MPLS to offer our clients the ability to prioritize their data, video and voice transmissions by assigning Classes of Service to them. To further enhance our network service offerings, we continue to raise our standards in service level management and security. Our expanded efforts in the area of mobility allow us to deliver business solutions across an increasingly diverse array of end-user devices.

Our Service Solutions

Our business focuses on providing mission critical value-added global data communications services to meet our clients global managed data communications needs. We use a consultative, application-oriented approach, branded as Application Defined Networking, to help our clients develop a network infrastructure that meets the unique needs of the enterprise applications in which they have invested. By analyzing how efficiently the enterprise-class applications those applications that are the most network intensive and are mission critical to the client s business are running on a client s network, we can identify a customer s needs and use our extensive portfolio of products and services to provide global, customized solutions to fit those unique requirements.

We offer our clients either individual services that they can use as part of their own networks or more integrated solutions that combine several of our services. Examples of how our services and solutions meet our clients needs include:

For AOL, a leading interactive media company, we provide call center capabilities throughout Europe to distribute customer queries to the most qualified AOL support personnel;

For Nestle, a leading consumer products company, we provide enterprise-wide services, including IP and Network Management services in over 55 countries; and

For IBM, a leading manufacturer and seller of computer services, hardware and software, we provide multimedia services in 13 countries throughout Asia Pacific.

The World Network is the physical platform across which we seamlessly deliver all of our network services. Our Global Network Management/Local Support infrastructure is a combination of customer care, network management, network implementation, billing and field service that allows us to offer our solutions uniformly and consistently throughout the world.

We develop client solutions by working with our country representatives. In most cases, our country representatives interface directly with our clients and have responsibility for both selling and servicing each client location in their respective territories. To ensure that our services are provisioned with the highest quality of service, our country representatives oversee the deployment of each client solution using a highly-developed set of systems, processes and infrastructure that have been developed, tested and improved over the last 30 years. After installation, our integrated global billing system enables us to provide our clients a single invoice for all services.

We believe the time and capital that would be required to duplicate our global capabilities provides us with a significant competitive advantage as well as providing a barrier to entry to new entrants wanting to offer global managed network services.

Our services are organized into four categories: Network Services; Consulting Integration and Provisioning Services; Application Services and Other Communications Services. For a detailed description of the revenue associated with each of our service categories, please see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in this report.

Network Services

We offer multinational enterprises global communications solutions delivered on our seamless, high performance network. Our clients use these services to manage information, including the secure delivery of mission critical enterprise applications that require predictable performance to users distributed worldwide. For example, manufacturing enterprises use our services to integrate production and inventory schedules, technology enterprises use our services to transmit design files and financial institutions use our services to connect their trading desks. Typically, clients employ these services to transmit information that is critical to their daily operations.

Within Network Services, we offer Intranet, Multimedia, Internet and Wireless/Remote Access Services.

Intranet Services. Infonet was the first company to offer application defined worldwide Frame Relay services in more than 65 countries with customized performance levels. Through our Frame Relay service, we enable our clients to assign Class of Service levels to Frame Relay traffic for each application.

Our IP VPN Secure service supports IP VPNs to provide functionality similar to the public Internet but with the performance characteristics of The World Network. IP VPN Secure is a leading-edge service using MPLS and offering Classes of Service for data, video and voice transmissions. We offer our customers three levels of IP VPN Secure services to meet specific application performance characteristics in addition to voice and video Classes of Service. We back this capability with strong service level agreements. We were among the first providers to offer an intranet IP VPN service and have over a decade of experience in provisioning services using the world leading Internet Protocol. We believe that our IP VPN Secure services are also well designed for corporations seeking to establish extranets or engage in e-commerce.

Our global Asynchronous Transfer Mode, or ATM, services address the increasing demand for high speed integrated voice, video and data services, and for bandwidth-intensive applications, such as video conferencing. Using ATM, we can prioritize traffic using Class of Service technology and transmit voice, data and video with guaranteed quality of service at speeds up to 622 Mbps. These characteristics make ATM an excellent choice for broadband communications. By using ATM to integrate data, video and voice services, we believe that our clients realize the highest performance from their applications and achieve significant cost savings.

Multimedia Services. For many global enterprises, critical business support functions such as telephony, faxing and video conferencing can be costly and inefficient. We believe that our MultiMedia Solutions address the unique needs for global voice and video communications and provide a range of more cost-effective, managed services for the multinational client.

Our voice and video services provide integration of multiple voice, video, fax and data networks onto The World Network to deliver a global enterprise solution. These services are available both as standalone solutions and as converged solutions that accelerate the transition from traditional switched voice and video services to packet based services. Because voice and video can be integrated with any of Infonet s Class of Service Intranet services, clients have significant flexibility to design a service solution that is customized to meet their needs. In addition, we offer our clients a customized dial-plan capability and bill them with a single global invoice that includes location and call details.

Internet Services. Our IP VPN Internet services enable clients to utilize Infonet as their global Internet Service Provider, or ISP, with consolidated support and billing across multiple countries to access the Internet or build an IP VPN over the public Internet. This capability is a distinct benefit for clients that would otherwise use multiple ISPs in different countries. Clients can connect to our Internet backbone from more than 55 countries using access services that include managed, dedicated and dial-up Internet access. We also offer advanced encryption and authentication services through agreements with Cisco Systems and Verisign, respectively. Our IP VPN Internet service is often used to complement our private IP network service, IP VPN Secure, in locations that cannot justify the cost or do not require the higher performance and associated costs involved with private IP networking.

Wireless/Remote Access Services. Over the past ten years, we have evolved our remote access, or DialXpress, services to anticipate and satisfy our clients need for user mobility the ability to access corporate information and applications wherever an end-user is working. To that end, we offer our clients a variety of remote access services on a wireline and wireless basis. Our remote access services provide our clients employees, who are traveling or who are located remotely, with access to the same network applications that are available at their primary office. Using our services, applications such as enterprise resource planning, file sharing, Internet access and e-mail are accessible with higher levels of security and performance than would normally be provided if these applications were accessed via the public Internet. We contract with some of the industry s leading suppliers of enhanced security products to offer our clients security products that provide greater security than traditional password systems. As a result, our remote access service provides connectivity for virtual offices almost anywhere in the world, quickly, securely and cost-effectively.

We provide dial-up connectivity through The World Network that is designed to ensure secure access for our clients employees, business partners and customers. We also provide worldwide virtual private network connectivity for remote offices and local area networks, or LANs, that support small office/home office and business partner/client extranet solutions as well as basic Internet access requirements. We can offer network access on telecommuters home computers, through toll free dial-up service or via mobile devices, allowing clients to leverage their investment in other Infonet Network Services. In recent years, DialXpress has evolved to support established mobile technologies such as Global System for Mobile Communications, or GSM, Code Division Multiple Access, or CDMA, and High-Speed Circuit-Switched Data, or HS-CSD, and has gained industry recognition for its next-generation mobile access services.

In order to further improve our clients mobility and increase our ability to provide customized solutions, we are working on integrating next-generation mobile technologies (such as GPRS, or General Packet Radio Services and EDGE, or Enhanced Data for GSM Evolution) as well as the use of Wireless Local Area Network, or Wi-Fi/WLAN, hotspots into our service offerings. We expect our active involvement with operators in the development of the global GPRS (General Packet Radio Service) Roaming Exchange, or GRX, as well as active participation within the Wi-Fi organizations, to benefit us in these efforts.

Consulting, Integration and Provisioning

We offer provisioning and implementation services to our clients to implement the last-mile part of the solution. Our country representatives provide on-the-ground support and the local implementation necessary to deliver these services on a global basis. As part of our integrated solution, the country representatives provision leased lines from a local telecommunications provider to connect our customer sites to The World Network. In addition, our country representatives procure, install and maintain the appropriate customer premise equipment the devices at the customer site that connect the client s internal network with The World Network. We have traditionally provisioned customer premise equipment based on the local market price of the equipment. In an effort to reduce the costs of provisioning these devices, we are continually trying to negotiate more competitive prices on a global basis. We believe that few other global data communications service providers can offer similar localized services on a global scale.

Furthermore, in remote locations where wireline connectivity is impractical, we provide satellite-based clear channel network connections through our VSAT Connect Service. We currently offer this service in conjunction with Hughes Global Services. Our VSAT service has a virtually worldwide footprint and is fully supported 24-hours a day, seven days a week.

We also offer consulting services designed to assist multinational enterprises to better align their information technology investments and local area global networks with their primary applications, end-user requirements and business goals. We also offer consulting services that analyze the relationship between our clients applications and their network. Through our patent pending Network Analysis Program, we provide a customized solution to balance applications and sizing for end-user requirements.

Application Services

Our Application Services include messaging and collaboration services, managed extranet services, call center services and security services. We host e-mail services for our clients using Internet based messaging software and Lotus Notes software. Our e-mail hosting activities include management of the client servers, software support and services, and e-mail translations to Short Message Service, or SMS, text messaging and fax. Additionally we provide a means for our clients to leverage the electronic efficiencies of using an Extranet to connect customers, suppliers and business partners through our Managed Extranet Service.

Our call center services include four levels of customized real-time control, enabling our clients to harness what we believe to be the latest call center application technologies. This service provides our clients with the ability to dynamically monitor and control call routing based on demand. Using an Intelligent Call Routing platform, we manage all inbound call technology, including the provisioning and management of the local numbers in each country, and provide our clients with the ability to effectively route incoming traffic from across Europe. In this way we help our clients improve agent productivity and customer handling.

We offer security services for our clients. Our security services include data integrity using encrypted VPNs, digital certificates and one-time passwords for authentication, proxy and reverse proxy security gateways, and premise and regional firewall solutions to enforce corporate Internet and WAN security policies as well as intrusion detection services. Using these services, our clients can implement comprehensive global security measures while controlling the associated costs.

Other Communications Services

Other Communications Services include X.25 services and other communications services. As customers transition away from the X.25 legacy service to one of our Network Services, the number of customers in this category continues to decline.

Client Base

We power the networks of multinational clients that are diversified across both industry groups and geographic regions. We provide our services to many of the world s largest multinationals. Our clients include 29% of the Fortune s Global 500 for 2002, evidencing the central role we play in the global data communications industry. In the fiscal year ended March 31, 2003, we added 499 new client contracts, including a net 156 clients that transitioned to our platform from the AUCS platform. We ended the year with over 1,800 clients. No single client comprised more than 4% of our revenues in the year ended March 31, 2003.

A substantial portion of our revenues are under contract for one to three years, with contracts for some clients extending even further. Excluding Consulting, Integration and Provisioning services, which are used by substantially all of our clients, 43% of clients use multiple services, benefiting from our broad product portfolio. To date, our most popular suite of services have been our Intranet Services, with more than 78% of clients currently using these service. We also serve a diverse client base, with our largest clients representing various industries such as manufacturing, technology, banking, pharmaceutical and consumer products.

We believe that we attract and retain clients by offering secure, high quality services and support. In addition, we believe that our clients will continue to use our services because the act of switching service providers not only has the potential to compromise the security and performance of a client s network, but also presents a significant inconvenience. For example, the customer would have to expend significant time to disconnect and reconnect the service and each service to be switched would experience disruptions during the transfer. These issues are exacerbated for our larger clients who use many of our services. As a result, we have kept our overall churn rate (measured by annual revenue lost from clients who stop using our services entirely) below 5% for each of the past three years. In addition, our larger clients typically have renewed their contracts with us and continue to use our services.

Distribution

Infonet employs a multi-tiered distribution strategy in order to maximize growth, use of our network and economies of scale. Our sales strategy utilizes both Direct Channels and Alternate Channels.

Direct Channels

We call our direct channel in-country sales and support units our country representatives. They give us the global reach and strong local presence in the countries in which we operate. We are present in over 70 countries and territories via our 58 country representatives.

As of March 31, 2003, our consolidated country representatives, those country representatives in which we own a controlling interest, consist of 10 separate country representatives that provide service in 12 countries Belgium, Canada, France, Italy, Liechtenstein, Luxembourg, Mexico, Monaco, Russia, Turkey, the United Kingdom and the United States. Our consolidated country representatives accounted for approximately $188.2 million of our revenues in the year ended March 31, 2003, representing about 29% of total revenues. In addition to our consolidated country representatives, as of March 31, 2003, we had six country representatives in which we had an ownership interest that is less than fifty percent, and 42 country representatives in which we had no ownership stake. In the aggregate, our country representatives generated approximately 86% of our revenues in the year ended March 31, 2003.

We are the principal service provider to our clients and control the delivery of all Infonet services to them on an end-to-end basis. We own, control, configure, and manage our network and rely on our country representatives to deliver our services and maintain The World Network locally. We support each of our country representatives by providing regionalized, as well as centralized, sales and marketing support. In addition, we conduct sales training centrally and within each sales region, and we use computerized training to reinforce classroom training.

Each of our country representatives is involved in sales and marketing, operations and client support. They each maintain a sales force that directly calls on clients, coordinates the contract signing process, manages accounts on a daily basis and serves as the first point of contact for clients, generally providing service in the local language. We rely on our country representatives to apply their knowledge of the local operating, regulatory and market conditions to market our service offerings effectively to the local client base. In order to minimize our regulatory hurdles, our country representatives usually enter into the legal contracts with our clients. Sometimes, to adequately address the needs of a potential client, country representatives from different countries will collaborate with each other and make joint sales presentations. Once a new client has signed a contract, we configure the network for the service and coordinate with other country representatives to implement the solution for the client. Our country representatives take a leading role in implementing the last-mile part of the solution by provisioning leased lines and installing equipment at the client site. In addition, the country representatives provide local support for our services by operating local network nodes and, in some cases, housing and operating components of the infrastructure for specific services on our behalf.

We have service agreements with all of our country representatives that govern our relationships. The agreements are generally non-exclusive and are essentially the same for all country representatives, with most providing for an initial three year term with an automatic annual rollover. These agreements provide the country representatives with:

- the right to market and sell our services;
- the right to use our trademarks and service marks;
- access to operational and marketing documentation; and
- training materials and sessions.

The agreements typically give us:

- the right to recommend prices;
- the right to jointly set revenue targets with the country representatives;
- the ability to terminate the agreement if the country representative fails to meet the revenue targets or if targets cannot be agreed upon for two consecutive years;
- the ability to determine staffing of the local office jointly with the country representatives; and
- in many cases, the right to appoint one of the three members of an advisory review board, which governs the relationship between us and the country representative.

The agreements outline the fees that the country representatives are required to pay us for access to our network. In addition, the agreements outline our compensation and pricing arrangements with the country representatives.

Alternate Channels

Our alternate channels accounted for approximately 14% of our revenues in the year ended March 31, 2003. They are all entities in which we do not have an ownership interest and are classified into three different categories.

Partners. Our partners are generally licensed to sell the totality of our product line.

Licensed Distributors. Licensed distributors are telecommunication companies that have the same rights and responsibilities as a partner from a sales perspective, but are licensed to sell only specific products or services.

Resellers. Resellers are major telecommunication companies and other value added resellers that sell very specific Infonet network services under private label as part of a larger service offering to multinational companies in their markets.

In almost all cases, regardless of the alternate distribution channel utilized, clients are fully aware that Infonet is the service provider because the installation and other in-country support is provided by our direct channel country representative organization. Our revenues for a channel are categorized as alternate channel revenues in those instances where the services sold are provisioned by third parties or where services provisioned by Infonet are not sold as Infonet Services.

In a particular country, we may have more than one sales channel. Currently we believe that we have little channel conflict. Our alternate channels give us the opportunity to create incremental revenues from segments of the market that our direct channels do not reach. These channels also help us understand different market requirements and competitors, help us increase our total market penetration and allow us to leverage our cost to maintain The World Network. If channel conflict increases in the future, we believe it would be a positive indication that we are covering much larger segments of the global marketplace and thereby increasing our overall revenues.

AUCS Agreements

On October 1, 2002, our three-year arrangement with AUCS Communications Services N.V., Unisource, the then owner of AUCS (Unisource has since been liquidated), and the three companies that own AUCS KPN, Swisscom and Telia was terminated by its terms.

During the three-year term of our arrangement with AUCS, we purchased services from AUCS and provided those services to the distributors which served the AUCS end-users. Our services agreement with AUCS provided us gross margins of approximately 20% on the provision of the services to the distributors. We also obtained access to multinational corporate clients served by AUCS and increased the number of multinational corporate clients to which we could offer our services, with the expectation that, over time, this would result in the normal and transparent transition of some of these multinational clients onto The World Network and the use of our services. As a result of the AUCS arrangement, we were successful in transitioning approximately 237 AUCS clients to the Infonet platform. Subsequent to the termination of the AUCS arrangement on October 1, 2002, we no longer receive revenue associated with the provisioning of AUCS services.

The AUCS arrangement also included a three-year management agreement that terminated on October 1, 2002. Under the management agreement, we received a fee equal to 1.5% of the revenues associated with the AUCS services, subject to a defined maximum, and an incentive payment based upon the achievement of defined financial performance criteria. In accordance with the amount claimed, we received an interim payment of Euro 56 million (approximately $56.7 million) on December 15, 2002. In March 2003, in accordance with the Incentive Payment Agreement, the final incentive fee of Euro 77 million was agreed upon by the parties. In accordance with the Incentive Payment Agreement, of the unpaid incentive fee balance of Euro 21 million, Euro 16 million (approximately $16.9 million) was paid in April 2003 and Euro 5 million was placed in an escrow account for final disposition pending resolution of certain contingencies as required by the terms of the Incentive Payment Agreement.

In order to memorialize the termination of the AUCS arrangement, we entered into a termination and transition agreement as of September 30, 2002 with the parties to the AUCS agreements. The agreement provided for among other things: (i) the provision of certain services by us to AUCS and by AUCS to us for a limited period of time beginning October 1, 2002 and continuing through April 2003, in order to ensure a smooth transition after the termination of the management agreement and (ii) the terms of payment of certain fees and costs related to the termination and transition arrangements. Separately, we purchased various network equipment located across Europe from the AUCS business for approximately $1.5 million.

Promotion and Advertising

We recognize that strong brand development and increased name awareness are important in obtaining market share. In addition to print advertising, our promotional, public relations, sponsorships, merchandising and co-marketing programs during the year continue to promote Infonet s name in our target marketplace.

In the fiscal year ended March 31, 2003, we concluded many successful enhancements to our corporate marketing activities that we believe have increased awareness, garnered industry awards and enhanced the stature of our corporation. These enhancements include: continuation of our marketing campaign based on the phrase Insight Matters; expansion of our Industry Analyst program, designed to increase awareness in this group; and the creation of a new client e-newsletter. Additionally, our media relations program has substantially increased the number of publicly available reports describing our services and capabilities.

In an effort to further develop brand awareness, we advertise in the world s leading newspapers and business magazines and in high traffic locations such as major international airports. We have sponsored an entry in the Rose Parade, in Pasadena, California, for the past two years and we are a major sponsor of the Alinghi, the Swiss challenge to the America s Cup, which won the America s Cup for 2003. Each of these sponsored events is broadcast worldwide on television, providing us increased name awareness and recognition. As a result of these efforts, we were awarded the 2002 Superior Achievement in Branding and Reputation, or SABRE, Award in the category of Reporting Measurement for our Public Relations Calendar and Score Card grid system.

Industry Participants and Competition

The recent volatility in the data communications industry has witnessed several bankruptcies, including KPNQwest and Worldcom, Inc., creating uncertainty and deflationary pricing pressures. In light of these circumstances we believe that many existing and potential competitors have retreated from the global managed data communications marketplace. Our potential competitors include long distance and local telecommunications providers, systems integrators, cable television and satellite communications companies, software and hardware vendors, wireless telecommunications providers and national and regional ISPs. In addition, there are established and start-up companies that have built global networks and are offering data communications as part of a comprehensive communications services portfolio. Our chief global competitor is France Telecom/Equant, followed by AT&T and MCI (previously known as Worldcom). In addition, we also compete regionally with some of the regional incumbents, such as BT Ignite and Deutsche Telekom in Europe and NTT in Asia. The markets in which we compete are highly fragmented. Most participants specialize in specific segments of the market, such as access or backbone provisioning; managed access, for example, intranets and extranets; application services, for example, Web hosting; security services; and communication services, for example, IP-based voice, fax and video services and commercial e-mail. Many of these existing and potential competitors have greater financial resources, larger customer bases, greater name recognition and more established business relationships within the industry than we do.

We believe that competition in the data communications market is mainly a function of the ability to offer a broad variety of innovative services available on a reliable network supported by an effective service organization. In addition, in order to meet all of the needs of multinational enterprises, managed data network providers need to establish a comprehensive stewardship role over their clients networks that embraces all

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network technologies and focuses on each individual client s business processes. We believe that the key factors to our competitive position in this market are:

- our global reach;
- our full range of value-added services;
- our ability to provide customized solutions;
- our solid financial position;
- the reliability of our extensive global network; and
- our extensive country representative structure and the support it provides to our clients.

The World Network

We own and operate The World Network, one of the world s largest seamless advanced fiberoptic global data networks in terms of geographic coverage, which is accessible from over 180 countries. Our network supports the major data communications protocols that allow us to offer a broad range of services. Our network architecture allows us to respond quickly to our clients changing needs for increased bandwidth capacity, reliability and security while continuing to manage data traffic patterns efficiently. Because we manage our network on an end-to-end basis, we are well positioned to control and customize the services we deliver to our clients.

Clients can access The World Network either directly using a dedicated line or through dial-up services by connecting to a local node. If a client uses a dedicated line to access the World Network, one of our country representatives leases the line with speeds up to 155 Mbps from a local telecommunications provider. Our dial-up services offer remote access to The World Network through the local public telecommunications networks. We plan to offer additional access methods and adapt them to our backbone for increased efficiency. Among those services planned or under review for clients that require higher speed access are digital subscriber line and broadband wireless remote access. Clients can choose to have us manage their entire provisioning and support at and between each client location**.**

The World Network is based upon a four-tier hierarchical structure, which we believe provides a competitive advantage because it allows for efficient traffic management, higher performance and reduced cost. This four-tiered hierarchical structure is comprised of high bandwidth Global Switching Nodes, mid-bandwidth Regional Switching/Access Nodes, In-Country Local Access Solutions and Extended Client Access solutions.

Global Switching Node Locations

We use our Global (or Backbone) Switching Nodes to cost effectively aggregate and distribute interregional network traffic flows. They are the major backbone switching locations within The World Network. Each of these node locations is equipped with Marconi ATM switches, interconnected by fiber optic transmission trunks ranging from 45 megabits per second, or Mbps, to 2.5 gigabits per second, or Gbps, and is capable of accepting multiple channel inputs of data. There are 81 Backbone Switching Node locations presently in service and located in 30 countries. Some of these nodes also serve as Regional Switching/Access Nodes.

Regional Switching/Access Node Location

We use our Regional Switching/Access Nodes to aggregate regional traffic and provide access to The World Network for clients with bandwidth-intensive applications. These nodes provide both switching and access services within The World Network. Each of these node locations is equipped with Marconi, Cisco, and Nortel devices. The Nortel Passport switches provide Frame Relay capability as well as high capacity access to the

Backbone Switching Nodes through our backbone. The Cisco hub and access routers provide high capacity local access for our clients and aggregation services for regional Internet Protocol, or IP, traffic. The Cisco hub routers can also use the Nortel Passport switches for connection to the Backbone Switching Nodes to exchange data interregionally. Our Marconi equipment enables us to provide ATM services. We have 182 Regional Switching/Access Node locations in 65 countries, each supported by onsite engineers. Dedicated customer access speeds range from 2Mbps to 45Mbps.

In-Country Local Access Solutions

In order to better serve our clients from a network access perspective, we are implementing several key initiatives aimed at further expanding our reach within certain countries and metropolitan areas, reducing local access costs. These initiatives include:

In-Country Solutions. Our in-country initiatives are designed to expand our reach throughout certain countries by increasing the number of local access nodes available to our clients. This expanded reach brings us closer to our clients. In addition, our in-county solutions are transport technology neutral, thus enabling us to deliver a complete suite of network services at a reduced cost. One of our in-country solutions involves contracting with local telecommunications providers to establish in-country networks, or ICNs, in some of our high traffic locations. We have successfully deployed ICNs in the United States, France, Germany, the United Kingdom, Belgium and Italy. We are also evaluating additional countries for deployment later this year. As another part of our in-country solutions, we intend to deploy our own local access nodes in several countries during fiscal year 2004. Both of our expansion strategies rely on the use of Extended Access Points of Presence, or EAPOPs. Although we are currently using these EAPOPs for transport only, we may convert them into full service nodes in the future. By using an end-to-end managed EAPOP solution, we expect to realize significant cost reductions while maintaining quality levels of service.

The Optical Strategy. Optical technology deployed in the network is the next evolutionary step for us. While it is not our current intent to create a separate optical backbone, we plan to continue to deploy optical network capabilities as an enhancement to our current infrastructure. We intend to limit this deployment in fiscal year 2004 to areas in which we have heavy capacity requirements and where the deployment will result in overall cost reductions. We are primarily implementing this solution in metropolitan areas. We have already deployed metropolitan networks in New York City, London and Los Angeles, with optical connectivity to Seattle, Boston and San Jose, and several more metropolitan rings are currently in progress. We plan to connect these metropolitan rings using optical technology to allow for greater efficiency in our network.

Extended Client Access Solutions

We provide access to the World Network from over 180 countries through interconnections with other global, regional and national networks. In remote locations where terrestrial connections or alternative paths for specific high availability applications are not available, we use satellite technology in collaboration with Hughes Electronics to provide clients access to The World Network via satellite links.

Backbone Capacity

Our backbone connects all nodes on The World Network. Traditionally, we have obtained backbone capacity from major telecommunications carriers through short-term leases. As bandwidth prices began to drop and purchased bandwidth became available, we replaced some of our short-term leases on major international and regional routes with more economical longer-term solutions. The term purchased bandwidth , which is used throughout this document, refers to transmission capacity contractually acquired under long-term prepaid leases, capitalized leases and IRUs (Indefeasible Rights of Use). In the current competitive market, we have reverted to short-term leases to improve our flexibility and to take advantage of ongoing cost reductions. We have invested significant capital resources to expand and upgrade our network in order to maintain our competitive advantage.

Network Protocols

Our network strategy is to support a wide range of managed data communications services over a common infrastructure. As such, our global network infrastructure supports a variety of protocols including ATM, Frame Relay, IP and X.25. Our existing network offers seamless managed data communications services on a worldwide basis. We have implemented MPLS Class of Service for our IP clients, which allows them to prioritize the delivery of their data by application and ensure that mission-critical applications receive a higher priority than other data transmissions. This capability also exists for our ATM and Frame Relay clients.

Our network is able to support broadband services that require asynchronous networking capabilities (for example, video services), as well as provide transport for aggregated data between our Regional Switching/Access Nodes and our Global Switching Nodes. Our network is the transport platform for our managed data communications services, and allows for the efficient and high-speed transport of voice, video and data traffic over a single network. This capability not only enables us to further leverage our network assets, but also allows us to capitalize on the demand for anticipated new service offerings that combine voice, video and data. Furthermore, as client demand for additional bandwidth, faster transmission speeds and enhanced service quality increases for applications such as desktop videoconferencing, we believe our investment in ATM technology will position us as a leading provider of these services.

Network Management

We manage our network and monitor its operation 24-hours a day, seven days a week through two network control centers, one located in Los Angeles and the other in Brussels, and a centralized global customer assistance center, or GCAC, located in Los Angeles. The GCAC oversees, coordinates and supports our local, in-country help desks. We offer a certification program that trains our local help desks to assume additional direct support responsibilities historically reserved for our centralized GCAC, thus allowing the local organizations to provide a higher level of direct technical support to their clients. To date, 31 local support organizations have been certified, and we anticipate extending certification to additional locations in fiscal year 2004. As an additional level of technical support for the GCAC, we provide highly trained and experienced technicians, our Global Technical Support, or GTS, team, located in Los Angeles, Brussels and Tokyo to resolve those customer needs that cannot be addressed by the first point of contact (local help desk or GCAC). As with our certification program for general customer support, we have implemented the GTS Extension program that trains technicians in our local organizations to provide this higher level of support offered by GTS in-country. To date, the GTS Extension program has been implemented in seven countries. Our total customer support operations, including those of our country representatives, consist of multilingual, technologically experienced staff in over 65 countries.

Our network management infrastructure is an integral component of the seamless delivery and management of our suite of services. We proactively monitor the real-time status of over 86,000 active network interfaces that provide performance feedback on a daily basis. Consistent information is available to all global support entities using trouble tracking services, network alerts and alarms, change configuration and security management processes. We continue to enhance these capabilities by adding automation tools and providing on-going training.

Network Security. We have built and maintain an advanced security and control structure. Because we manage our global network from end-to-end, we maintain central control of network access, operations and maintenance. We protect our network through various means including firewalls, intrusion detection platforms, network address translation, filtering and network architecture structures, as well as various dedicated network and remote access authentication processes.

Backup Network Control Centers and Nodes. Each of our network control centers serves as the primary control center during its regional business day. As a result, both locations are fully equipped to assume complete

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network control responsibilities for our network in case of a major disaster or other outage at one of our control centers. In addition, in order to lower the potential exposure from major failures or disasters affecting a node, or any individual network connection, we have implemented dual connections to all primary network nodes, along with alternate paths around any non-functional primary node. This structure provides for multiple paths through both nodes and network connections and is designed to minimize potential network disruptions to our clients worldwide.

Circuit Diversity. With rare exceptions, nodes are connected to at least two other nodes via redundant connections so that no single connection failure will result in the isolation of the node. The failure of a connection results in the automatic rerouting of traffic to one or more alternate network paths. In the event of a node outage, transit traffic is automatically rerouted to paths around the failed node. In addition, we have, over our operating history, sought to ensure that our circuits are, to the extent practicably possible, diversely routed so that a major failure by a carrier in a given route does not result in a total network outage to our clients.

Disaster Recovery. Under our disaster recovery plan, we distribute our critical operations over two global regions, which constantly share information with one another. Each of our network control centers and GCAC are essentially self-contained units located in diverse geographic regions, and thus provide natural disaster backup for each other as described below:

- Network Control Centers in Los Angeles and Brussels;
- Global Customer Assistance Center in Los Angeles;
- National Customer Assistance Centers in 58 countries, including certified help desks in 28 countries; and
- Global Technical Support Centers in Los Angeles, Brussels and Tokyo with extended support in the Netherlands, Belgium, Germany, France, Japan, Singapore and the United States through the GTS Extension program.

Within the backbone, we have minimized the risk of node outages by placing our nodes in highly secure facilities and by requiring dual cable entrances, diversely routed circuits, uninterruptible power supplies and back-up generators. However, clients who need quick recovery from disasters or failures affecting a node can supplement their service with our Failure Recovery Service, which provides access to an alternate Infonet node via a leased line, dial-up access backup or satellite services. We provide this service on an automatic or manual backup basis.

Quality Standards

We perform ongoing quality system audits and conduct client satisfaction surveys. As a result, we receive constant performance feedback to ensure that our quality systems meet client needs and our guaranteed network availability. We have achieved ISO 9001:2000 registration for our quality management system.

Intellectual Property

Our success and future revenue growth depend, in part, on our ability to protect our intellectual property and to obtain future patent or other proprietary protection. We rely primarily on trademark, copyright and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies and processes. These measures may not provide meaningful protection for our intellectual property. We also rely on trade secrets and proprietary know-how, which we seek to protect, in part, through confidentiality agreements with our employees, partners and clients.

We also utilize trademarks on nearly all of our products, for which we have both registered and unregistered trademark protection in the United States and certain foreign countries. The specifics of trademark protection vary depending on the location, but provided we continue to use the trademark and follow the requirements for renewal, we expect our trademark protection to last indefinitely. We believe that our trademarks are of great value because of their contribution to the market identification of our products.

In addition, we have filed several U.S. patent applications relating to various software programs that allow us to collect and process certain performance statistics relating to a client s network and thereby develop optimal network solutions. We may not receive any patents as a result of these applications or future applications. Even if patents are issued, the claims may not be sufficiently broad to protect our technology. In addition, any future patents could be challenged, invalidated or circumvented, and any rights granted under such patents may not provide us with meaningful protection. The failure of any patents to adequately protect our technology would make it easier for our competitors to offer similar products and negatively affect our ability to competitively exploit our patented products and technologies. In addition, we may not have foreign patents or pending applications corresponding to our U.S. patent applications. Even if foreign patents are granted, effective enforcement in foreign countries may not exist.

It is possible that our confidentiality agreements will be breached or will not be enforceable, and that we will not have adequate remedies for any such breach. In addition, despite our precautions, it may be possible for a third party to copy or otherwise obtain and use our products, services or technology without authorization, to develop similar technology independently or to design around our patents. In certain foreign countries, effective copyright, trademark and trade secret protection may not be available or may be limited. We may find it necessary to engage in litigation to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of proprietary rights of others. In addition, we may be sued by other parties who claim that we have infringed their patents or misappropriated or misused their trade secrets. Litigation involving patents, trademarks, copyrights and proprietary technologies can often be protracted and expensive and, as with litigation generally, the outcome is inherently uncertain. Such litigation could result in substantial costs and diversion of our resources and could materially and adversely affect our business, financial condition and results of operations, even if claims against us are not valid or successfully asserted.

Regulation in the United States

With regard to the vast majority of our business, we operate as an unregulated provider of information services, as that term is defined in the Communications Act of 1934, as amended, and as an enhanced service provider, as that term is defined in the Federal Communications Commission, or FCC, rules. The FCC currently does not regulate the data communications systems we operate in the United States because our special services features enhance the private data network facilities offered to clients by altering the format of the information transmitted in connecting clients to data switches or processors. These networks generally are referred to as value-added networks and are configured for the data transfer requirements of the specific clients. The FCC also does not regulate value-added services such as voicemail, facsimile, database access, storage and retrieval services, store-and-forward messaging services, network management services, and Internet access, which are not encompassed in the FCC s definition of basic telecommunications services and which we refer to as enhanced services. Collectively, these services are classified for regulatory purposes as information services. In most foreign jurisdictions we operate as a value-added network provider. One of our subsidiaries, Infonet Telecommunications Corporation, has obtained authorizations to provide non-facilities-based resale interexchange (long distance) services in a number of states in the United States. Resale interexchange services are generally subject only to light regulation by the FCC and the states. We foresee this subsidiary serving only multinational enterprises to which we also provide unregulated enhanced data services. We do not intend for this regulated business to become a significant focus of our overall business strategy. Other than this one subsidiary, our operations currently are not regulated by the FCC or the states. In addition, although we do not otherwise operate as a common carrier, our subsidiary, Infonet Broadband Services Corporation, holds authorizations to provide international services between the United States and other countries on a common carrier basis. These authorizations require us to comply with specified regulatory filing and reporting requirements. If we begin to offer regulated telecommunications services as a common carrier, or if the FCC determines that our services constitute regulated telecommunications services, we will become subject to additional rules and policies. If we fail to comply with those rules and policies, we could become subject to enforcement actions or investigations, either of which could result in substantial penalties, including the loss of our authorization to provide telecommunications services.

Various existing U.S. federal and state regulations are currently the subject of judicial proceedings, legislative hearings and administrative proposals which could change, in varying degrees, the manner in which the telecommunications industry operates. Additionally, the FCC continues to refine its international service regulations in order to promote competition, to reflect and encourage deregulation in foreign countries and to reduce international accounting rates toward cost, and some foreign governments are actively considering regulation of some of the services we offer. We cannot predict the outcome of these proceedings or events, or the impact they may have on the telecommunications or information services industries generally, or on us particularly. Among other things, these changes may increase competition and alter our ability to compete with other similar service providers, make it more difficult to introduce new services or make it more expensive to provide our existing services. We cannot assure you that future legislative, regulatory or judicial changes in the United States or in other countries in which we operate will not have a material adverse impact on our business.

Regulation in Non-U.S. Markets

Although most countries impose little or no regulation on our network operations, the laws and regulations governing our services are under review in many countries outside the United States and are subject to change. Consistent with our strategy of obtaining licenses or authorizations to provide regulated services when we are able to obtain more favorable facilities or capacity lease terms or interconnection arrangements, we have obtained facilities-based authorization to provide telecommunications services in several countries. We may also obtain authorizations in additional countries to meet our business needs. In some countries we are able to obtain the more favorable arrangements we seek simply by notifying the relevant government authority that we intend to provide certain services. In other countries, we are engaging in discussions with foreign regulators to determine whether we must apply for authorization in order to acquire or lease facilities or interconnect with other carriers.

Employees

As of March 31, 2003, including our consolidated country representatives, we had a total of approximately 1,050 employees, 376 of which are located internationally. There are approximately 620 additional personnel charged with selling and supporting Infonet services who are employed by our non-consolidated country representatives, all of whom are based internationally. We have not experienced any work stoppages and consider our relations with employees to be good. None of our employees is represented by a labor union.

RISK FACTORS

Investing in our common stock involves a high degree of risk. If any of the following risks actually occurs, our business, results of operations and financial condition could be materially adversely affected, the trading price of our Class B common stock could decline, and you could lose all or part of your investment.

If we cannot maintain or increase prices, our revenue may decline and our losses may increase.

As the telecommunications market continues to experience transitional changes, we face several factors that may negatively affect our pricing:

- weak global economic conditions;
- the strengthening of incumbent operators may lead to high local access costs, requiring that we discount other components of our service offering in order to offer competitive pricing;
- as carriers and operators emerge from bankruptcy, they may continue with disruptive pricing practices in order to retain or gain market share;
- as national operators extend their services into regional markets they may lead with price, which leads to a reduction of pricing power by global multinational data network service providers; and
- the emergence of information technology consultants has created more aggressive customers, which serves to deflate pricing in the sector.

As a result of these and other factors, our clients frequently transition to different and more cost effective solutions offered by us when they renew their contracts. Consequently, we may provide comparable services to our clients at the same or even reduced prices under the renewed contracts. We refer to this as price erosion. We expect price erosion to continue for at least the near term.

The markets we serve are highly competitive and our competitors may have much greater resources to commit to growth, new technology or marketing.

Our current and potential competitors include other companies that provide data communications services to multinational businesses, systems integrators, national and regional Internet Service Providers, or ISPs, wireless telecommunications providers, cable television and satellite communications companies, software and hardware vendors, and long distance and local telecommunications companies. We expect that the data communications market will attract other established companies and multinational alliances. Further, there are established and start-up companies building global networks and beginning to offer data communications as part of a comprehensive communications services portfolio. Our competitors, which may operate in one or more of these areas, include companies such as France Telecom/Equant, AT&T and MCI (previously known as Worldcom). Our country representatives and suppliers, or their respective affiliates, are or could also become competitors either directly or through strategic relationships with our competitors. In addition, our six significant stockholders, KDDI Corporation, KPN Telecom B.V., Swisscom AG, Telefonica International Holding B.V., Telia AB and Telstra Corporation Limited, are among the world s largest telecommunications companies. These stockholders, each of which has significantly greater resources than Infonet, have in the past, are currently, or may in the future, provide service offerings that are directly or indirectly competitive with our services. We have in the past and expect in the future to encounter competition as a result of the formation of global alliances among large telecommunications providers, such as the merger between France Telecom and Equant.

Several of our current and potential competitors have substantially greater financial, technical and marketing resources, larger customer bases, greater name recognition and more established relationships in the telecommunications industry than we do. We cannot be sure that we will have the resources or expertise to compete successfully in the future. Our competitors may be able to:

- develop and expand their network infrastructures and service offerings more quickly;
- adapt better to new or emerging technologies and changing client needs;

- take advantage of acquisitions and other opportunities more readily;
- devote greater resources to the marketing and sale of their products; and
- adopt more aggressive pricing policies.

Some of our competitors may also be able to provide clients with additional benefits at lower overall costs. In particular, the growth rate in the data communications industry may have begun to decline and, in response, several of our competitors have begun to lower the prices of their services, including data communications services, in an effort to attract a greater market share. We have responded, where appropriate, with similar price reductions; however, we may be unable to maintain this reduced pricing for an extended period of time and we may be unable or unwilling to meet any future price reductions. If our competitors lower their prices further or maintain their existing prices for an extended period of time and we are unable or unwilling to make similar adjustments to our pricing, our sales could decline. In addition, financial and competitive pressures have caused some of our competitors to seek protection from creditors, and in certain cases, renegotiate their operating cost structure with vendors, creditors and other third parties, including in some cases, in connection with bankruptcy proceedings. As a result, these companies may be able to operate more competitively in the future. We believe it is likely that, in light of the financial troubles that many telecommunications companies are currently experiencing, there will be a greater number of competitors who may lower their operating costs in bankruptcy or otherwise, or consolidate with other competitors with greater resources, any of which could increase competition in ways that may adversely affect our business, results of operations and financial condition.

We may not be able to achieve our strategic objectives unless we successfully, timely and cost-effectively expand our network and manage our growth.

We must continue to develop, expand and technologically improve our network infrastructure as the number of our clients, the amount of information they wish to transport and the number and sophistication of services they demand, increases. The development, expansion and technological improvement of our network infrastructure requires substantial financial, operational and management resources. If we fail to anticipate demand for data transport or client preferences for various services, we may not be able to adequately expand or improve our network. If we do not expand or improve our network rapidly enough, our existing network hardware, traffic management and other systems and operating facilities may become over stressed and operate inefficiently.

A variety of factors, uncertainties and contingencies that are beyond our control, will affect the continued expansion of our network, such as:

- the availability of transmission capacity;
- price of transmission capacity;
- continued deployment of our ATM-based network;
- availability of wireless transmission capacity and technologies;
- local regulations; and
- availability of country representatives or other third-party sales and support channels.

Currently, there is substantial volatility in the market price for transmission capacity. We cannot assure you that actual expansion time and cost requirements will be met in accordance with our plans. A failure to continue to expand our network may have a material adverse effect on our ability to service our clients, offer competitive and technologically advanced services and to grow our business.

We currently rely on a relatively small core management team. If we experience significant growth in our operations, it could place a significant strain on our management, financial controls, operating and accounting systems, personnel and other resources. If we grow, we must not only manage demands on this team but also increase its management resources by, among other things, continuing to expand, train and manage our employee base and maintain close coordination among our technical, accounting, finance, marketing and sales staff. In addition, our network infrastructure, technical support and other resources may not be sufficient to facilitate growth. If we do not successfully manage our growth, we may be unable to adequately support our clients communications needs in the future.

Our ability to retain our clients and provide them with new and innovative service offerings may suffer if we are not able to keep up with the rapid technological developments in our industry.

The global communications industry is subject to rapid and significant technological changes, such as continuing developments of alternative technologies for providing high-speed data communications. We cannot predict the effect of technological changes on our business. We may rely in part on third parties, including some of our competitors and potential competitors, for the development of and access to communications and networking technologies. We expect that new services and technologies applicable to our market will emerge. New products and technologies may be superior or render obsolete the products and technologies that we currently use to deliver our services. Our future success will depend, in part, on our ability to anticipate and adapt to technological changes and evolving industry standards. We may be unable to obtain access to new technologies on acceptable terms or at all, and may therefore be unable to offer services in a competitive manner. If the global communications industry fails to set standards to allow for the compatibility of various products and technologies on a timely basis or at all, any new products and technologies may not be compatible with our existing technologies.

If we are unable to maintain our country representative and third-party sales channel relationships, then our ability to sell and support our services may be negatively impacted.

We are and will continue to be significantly dependent on a number of third-party relationships, including relationships with our non-consolidated country representatives and partners, to market and support our services. Many of our arrangements with third-party providers are not exclusive and may be terminated at the convenience of either party. We cannot assure you that these third parties regard our relationship with them as important to their own respective businesses and operations, that they will not reassess their commitment to us at any time in the future, that they will meet their sales targets or that they will not develop their own competitive services.

We may not be able to maintain our current relationships or form new relationships with third parties that supply us with clients or software and related products that are important to our success. Accordingly, we cannot assure you that our existing or prospective relationships will result in sustained business partnerships, successful service offerings or the generation of significant revenues.

We rely on our country representatives for most of the support and local implementation necessary to deliver our services on a global basis. We also rely on these country representatives for insights into local operating and market conditions. The failure of these country representatives to perform their tasks or operate their businesses effectively could, in turn, adversely affect our business. In addition, we sometimes provide our country representatives with equipment and installation services to facilitate our market participation. We may have limited recourse, or potentially no recourse, if they do not perform the services that we expect them to perform, and we may not be able to recover our equipment. Our recourse may be limited because the local laws and judicial system may not be effective in enforcing our rights. Also, our country representatives are parties to the legal contracts with clients. If these agreements are terminated, the clients have no legal obligation to purchase our services.

In addition, we frequently depend on our country representatives to obtain the regulatory approvals and licenses that we need to offer our communications services in other countries. In some cases, we cannot determine whether they are complying with local regulatory laws or taking the steps necessary to maintain proper licenses and permits. If any of our country representatives lose their telecommunications licenses, whether by violating local laws or otherwise, our business could suffer.

We depend on the telecommunications companies within our alternate sales channel for a significant part of our revenues, and the loss of a significant number of these entities could limit our ability to sustain and grow our revenues.

Our alternate sales channel represents our indirect sales force and consists of various telecommunications companies that integrate some or all of our services into their product offerings. In the fiscal year ended March 31, 2003, revenues from our alternate sales channels accounted for 14% of our total revenues. As a result, we depend upon the continued viability and financial stability of these entities, as well as upon their continued interest and success in selling our products. Within our indirect sales channel, our services are often marketed under the name of the telecommunications company itself, not Infonet. Increased pricing competition resulting from the slowing of the growth rate within the data communications industry is making it more difficult for these entities to generate sufficient revenues. Many of the telecommunications companies within our alternate sales channel have experienced difficult financial circumstances. Some have already initiated bankruptcy or liquidation proceedings, and others may experience similar problems in the near future. The loss of one or more telecommunications companies within our alternate sales channel could have a significant impact on our revenues.

If our vendors cease providing service to us for any reason, our operations may be adversely affected, operating expenses and capital expenditures may increase and our net loss may increase.

Due to financial and competitive pressures in some industries, including the telecommunications industry, a number of our bandwidth providers have experienced severe financial difficulties and related operational problems. Some have even initiated bankruptcy or liquidation proceedings. Additional vendors may experience similar problems in the future. These financial and operational problems of our vendors have in some cases resulted in, and could in additional cases result in, an inability of these vendors to provide us with the services we have contracted for, including, in some instances, a loss of our rights under our agreements for purchased bandwidth. In the bankruptcy context in particular, it is unclear how indefeasible rights of use agreements, or IRUs, will be characterized under the federal bankruptcy code or analogous laws of other jurisdictions. We cannot predict at this time how a bankruptcy court will treat an IRU. If additional financially struggling vendors cease operations or otherwise cease providing us the services we contracted for, or if a bankruptcy court concludes that our vendor agreements may be validly rejected in bankruptcy or the agreements are otherwise adversely affected, then we may be required to replace any assets required to run our business which have been adversely affected. We cannot assure you that we will be able to replace these assets on favorable terms or at all. As a result, we may lose any amounts we have paid to obtain the services contracted for and our operations could be adversely affected, our operating expenses could increase and our net loss could increase.

Delays or expense in receiving transmission capacity or delays in equipment delivery or loss of our equipment suppliers could impair our ability to provide service, the quality of the services we can provide and our results of operations.

We acquire, by lease or by purchase, transmission capacity from a wide range of suppliers, to connect client premises over the local loop via incumbent local exchange carriers networks to our network and for other network connections. We have from time to time experienced short-term delays in receiving the requisite transmission capacity from suppliers. In addition, we cannot assure you that we will be able to obtain local loop connections to our service points at favorable prices, as this access may be controlled by a single service provider. We also cannot assure you that we will be able to obtain these services in the future within the time frames required by us and at a reasonable cost. Any failure to obtain transmission capacity on a timely basis and at a reasonable cost in a particular market, or any interruption of local access services, could have an adverse effect on our ability to provide service or our service levels.

The switches and routers used in our network are provided primarily by Nortel Networks Corp. and Cisco Systems Inc. These suppliers also sell products to our competitors and may become competitors themselves. We may experience delays in receiving components from our suppliers or difficulties in obtaining their products at commercially reasonable terms. If we are required to seek alternate sources of switches and routers, we are likely to experience delays in obtaining the requisite equipment we need and may be required to pay higher prices for that equipment, increasing the cost of expanding and maintaining our network.

If our network infrastructure is disrupted or security breaches occur, we may lose clients or incur additional liabilities.

We and other network services providers may in the future experience interruptions in service as a result of financial difficulty of our suppliers, fire, natural disasters, power loss, or the accidental or intentional actions of service users, current and former employees and others. Although we continue to implement industry-standard disaster recovery, security and service continuity protection measures, including the physical protection of our plant and equipment, similar measures taken by us or by others have been insufficient or circumvented in the past. We cannot assure you that these measures will be sufficient or that they will not be circumvented in the future. Unauthorized use of our network could potentially jeopardize the security of confidential information stored in the computer systems of, or transmitted by, our clients. Furthermore, addressing security problems or interruptions of service may result in interruptions, delays or cessation of services to our clients. These factors may result in liability to us or our clients.

Because we have international operations, we face additional risks related to global political and economic conditions.

We operate in and intend to expand further into international markets. We cannot be sure that we will be able to obtain or build the necessary global communications infrastructure in a cost-effective manner or compete effectively in international markets. There are risks inherent in conducting business internationally. These include, among others:

- unexpected changes in regulatory requirements;
- export restrictions;
- tariffs and other trade barriers;
- challenges in staffing and managing foreign operations;
- differing technology standards;
- employment laws and practices in foreign countries;
- weaker intellectual property protections;
- political, social and economic instability;
- costs of services tailored to specified markets;

imposition of currency exchange controls; and

potentially adverse tax consequences.

Any of these factors could adversely affect our operations. In addition, a substantial portion of our revenue is derived from European clients. Therefore, although our historic revenue growth has not been materially adversely affected by general economic conditions, a future slowdown or recession in the European economy, in particular, could have a material adverse effect on our revenues and profitability.

Adverse currency fluctuations and foreign exchange controls could decrease revenues we receive from our international operations or increase our costs as measured in U.S. dollars.

We invoice substantially all sales of our services to our country representatives and our indirect sales channel partners in U.S. dollars. Accordingly, most of our revenue is denominated in U.S. dollars. Our consolidated country representatives may derive their revenue and incur maintenance and other expenses in currencies other than U.S. dollars. To the extent that, either directly or through our consolidated country representatives, our expenses in a currency other than the U.S. dollar do not match our revenue in that currency, our operating results are subject to foreign currency exchange risk. Our non-consolidated country representatives and alternate sales channel partners operating results may also be subject to foreign currency exchange risk because they are obligated to pay us in U.S. dollars but may derive their revenue in currencies other than the U.S. dollar. Our obligations, together with the obligations of our country representatives and sales channel partners whose revenue are in foreign currencies may be subject to unpredictable and indeterminate fluctuations if those currencies change relative to the U.S. dollar. Furthermore, we, our country representatives or our sales channel partners may become subject to exchange control regulations which might restrict or prohibit our or their conversion of currencies into U.S. dollars. We cannot assure you that future exchange rate movements will not have a material adverse effect on our sales, gross profit or operating results.

If members of our senior management team leave Infonet, then our ability to operate our business may be negatively affected.

Our future success depends to a significant extent on the continued services of our senior management, particularly Jose A. Collazo, President, CEO and Chairman of the Board of Directors, Akbar H. Firdosy, our Chief Financial Officer, Paul A. Galleberg, our Chief Legal Officer and other members of our executive management team. The loss of the services of Mr. Collazo, Mr. Firdosy or Mr. Galleberg, or any other present or future key employee, could have a material adverse effect on the management of our business. We have employment agreements with Mr. Collazo, Mr. Firdosy and Mr. Galleberg. We do not maintain key person life insurance for any of our personnel.

Competition for highly-skilled personnel can be intense and the success of our business depends on our ability to attract, retain and manage key personnel.

Our future success depends on our continuing ability to attract, retain and motivate highly-skilled employees. As we continue to grow, we will need to hire additional personnel in all areas. Competition for personnel throughout the data and voice communications industries has been and may again become intense. We may be unable to attract or retain key employees or other highly qualified employees in the future. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly-skilled employees with appropriate qualifications. If we do not succeed in attracting sufficient new personnel or retaining and motivating our current personnel, our ability to provide our services could diminish.

Our corporate structure may grant you only limited voting power and discourage a takeover attempt because our Class A common stockholders will control the outcome of stockholder votes.

Our Class A common stockholders, in the aggregate, also beneficially own approximately 78% of our Class B common stock, which, combined with their Class A stock, equals more than 95% of our voting power. These stockholders exercise control over all matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control of our company, which could have a material adverse effect on our stock price.

We have entered into a stockholders agreement with all of our Class A stockholders. This stockholders agreement provides that each Class A stockholder holding at least 14.95 million shares of our Class A common

stock has the right to nominate one of our directors, and each Class A stockholder agrees to vote all of its shares in favor of the directors nominated by the other Class A stockholders and for our president as a director.

In addition, provisions contained in our revised certificate of incorporation, our revised bylaws, Delaware law and our stockholders agreement could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders. Our revised certificate of incorporation requires the approval of both 95% of the voting power of the Class A common stock and two-thirds of the voting power of the Class A and Class B common stock voting together to take certain significant corporate actions such as changes to our share capital, or a merger, consolidation or liquidation. Based on the current ownership of our Class A common stock, we will not be able to undertake these actions without the approval of each of our Class A stockholders. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our Class B common stock and may have the effect of delaying or preventing a change in control.

If we or our Class A stockholders sell additional shares of our Class B common stock, it could cause the market price of our Class B common stock to decline.

All of our Class A stockholders have the right to convert their Class A common shares into Class B common shares at any time on a one-for-one basis. If our shareholders sell a large number of shares of Class B common stock in the market, either through the conversion and sale by one of our Class A shareholders of its Class A common shares into Class B common shares, or otherwise; if the perception exists that large sales could occur; or if there are sales by us, our management or our stockholders, the market price of our Class B common stock could decline. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Our quarterly operating results may vary, which may cause volatility or a decline in the price of our Class B common stock.

Our revenues and operating results may vary significantly from quarter to quarter due to a number of factors, not all of which are in our control. These factors include, among other things:

- the size and timing of significant equipment and transmission capacity purchases;
- the timing of new service offerings;
- changes in our pricing policies or those of our competitors;
- the timing of our network expansion;
- the loss of significant clients;
- market acceptance of data communications generally and of new and enhanced versions of our services in particular;
- the length of our contract cycles;

our success in expanding our sales force and expanding our distribution channels; and

taxes.

In addition, a relatively large portion of our expenses are fixed in the short-term, particularly with respect to global communications capacity, depreciation, real estate expenses and personnel, and therefore our results of operations are particularly sensitive to fluctuations in revenues. Due to the factors noted above and the other risks discussed in this section, you should not rely on period-to-period comparisons of our results of operations. Quarterly results are not necessarily meaningful and you should not rely on them as an indication of future performance. It is possible that in some future periods our operating results may be below the expectations of public market analysts and investors. In this event, the price of our Class B common stock may fall.

Volatility of our stock price may expose us to securities litigation.

The stock market has experienced significant price and volume fluctuations, and the market prices of global communications companies have been extremely volatile. The market price of our Class B common stock could be affected by, among other things:

- quarterly variations in our operating results;
- technological innovations of ours or of our competitors;
- changes in government regulations;
- conditions in the international data communications and telecommunications industries;
- increased price competition;
- changes in earnings estimates by analysts; and
- changes in general economic conditions and volatility in the financial markets.

In the past, following periods of volatility in the market price of a public company s securities, securities class action litigation has often been instituted against that company. On December 5, 2001, the first of nine complaints alleging securities fraud was filed against us and several of our current and former officers and directors. The nine lawsuits have been consolidated and a consolidated class action complaint has been filed on behalf of public investors who purchased our securities during the period from December 16, 1999 through August 7, 2001. The consolidated class action complaint alleges that defendants made misrepresentations and omissions regarding our AUCS channel in our Form S-1 registration statement and the accompanying prospectus for our initial public offering and in other statements during the class period.

On March 1, 2002, the first of three shareholder derivative suits was filed against us as a nominal defendant and certain current and former members of our board of directors. On August 23, 2002, the three actions were consolidated. The current complaint alleges that the defendants breached their duties toward Infonet either through their alleged participation in, or alleged failure to adequately oversee, the purported conduct and events that are alleged in the securities class action lawsuits described above and an alleged violation of California Corporations Code Section 25403. For a more detailed description of these lawsuits, see Item 3. Legal Proceedings. We are unable to predict the outcome of this litigation and it could result in substantial costs to us and a diversion of our management s attention and resources.

We face uncertain and changing regulatory restrictions which could limit our operating flexibility and increase our costs.

With the limited exceptions discussed below, in general the services we provide are not currently subject to direct regulation by Federal Communications Commission, or the FCC, or the states. Future changes in legislation or regulation, however, could result in some aspects of our current operations becoming subject to regulation by the FCC or a state of the United States. If the FCC or a state seeks to regulate some segments of our activities as telecommunications services, we cannot predict the impact, if any, that this future regulation or regulatory changes would have on our operations.

One of our subsidiaries, Infonet Telecommunications Corporation, has obtained authorizations in a number of states in the United States to provide non-facilities-based resale interexchange (long distance) services. Resale interexchange services are generally subject only to light regulation by the FCC and the states. In addition to the licenses held by Infonet Telecommunications Corporation, we currently hold FCC common carrier authorizations to provide international telecommunications services between the United States and other countries. We also have obtained facilities-based authorizations to provide telecommunications services in several other countries and may obtain authorizations in additional countries to meet our business needs. Our licenses subject us to the jurisdiction of the relevant regulatory body which, in turn, may require that we make specified regulatory filings and pay attendant fees. Future regulatory, judicial and legislative changes in countries in which we operate may impose additional costs on us or restrict our activities. In addition, regulators or third parties may raise material issues with regard to our compliance with applicable regulations. Failure to comply with applicable laws or regulations in the United States, or other countries in which we operate, could prevent us from carrying on our operations cost effectively.

The law relating to the liability of online services companies and Internet access providers for data and content carried on or disseminated through their networks is currently unsettled and could expose us to unforeseen liabilities.

It is possible that claims could be made against online services companies and Internet access providers under U.S. or foreign law for defamation, negligence, copyright or trademark infringement, or other theories based on data or content disseminated through their networks, even if a user independently originated this data or content. Several private lawsuits seeking to impose liability upon online services companies and Internet access providers have been filed in U.S. and foreign courts. While the United States has passed laws protecting Internet access providers from liability for actions by independent users in limited circumstances, this protection may not apply in any particular case at issue. In addition, some countries, such as China, regulate or restrict the transport of voice and data traffic in their jurisdiction. The risk to us, as an Internet access provider, of potential liability for data and content carried on or disseminated through our system could require us to implement measures to reduce our exposure to this liability. This may require us to expend substantial resources or to discontinue some of our services. Our ability to monitor, censor or otherwise restrict the types of data or content distributed through our network is limited. Failure to comply with any applicable laws or regulations in particular jurisdictions could result in fines, penalties or the suspension or termination of our services in these jurisdictions. The negative attention focused upon liability issues as a result of these lawsuits and legislative proposals could adversely impact the growth of public Internet use. Our professional liability insurance may not be adequate to compensate or may not cover us at all in the event we incur liability for damages due to data and content carried on or disseminated through our network. Any costs not covered by insurance that are incurred as a result of this liability or alleged liability, including any damages awarded and costs of litigation, could harm our business and prospects.

Item 2. *Properties*

Our headquarters are located in a facility consisting of approximately 150,000 square feet in El Segundo, California, which we purchased for $33.1 million in March 2000 pursuant to a 15-year mortgage. In March 2003, we paid off this mortgage in full. In December 2001, we acquired a new, approximately 120,000 square foot office building adjacent to our existing headquarter facilities to accommodate current and future growth. We purchased the building for cash in the amount of $25.3 million. This building requires interior improvements ranging from $6 million to $10 million. We initially plan to use one floor, approximately 30,000 square feet, for ourselves and offer the unoccupied space for lease to third parties until such time as we need it to accommodate additional growth.

In addition, we lease sales offices domestically and internationally in a variety of locations. These leases generally have terms of three to five years. None of these offices is critical to our success, and we believe that suitable additional or alternative space is available on commercially reasonable terms as needed.

We also lease facilities for our network control centers, global customer assistance center and engineering offices around the world. We lease these facilities at commercial rates under standard commercial leases. We believe that suitable space for these operations is generally available on commercially reasonable terms as needed.

Item 3. ***Legal Proceedings***

On December 5, 2001, the first of nine complaints alleging securities fraud was filed against us and several of our current and former officers and directors in the United States District Court, Central District of California. The lawsuits have been consolidated under the caption, *In re Infonet Services Corporation Securities Litigation*, Master File No. 01-10456 NM (CWx). A Consolidated Class Action Complaint was filed on July 3, 2002 on behalf of public investors who purchased our securities during the period from December 16, 1999 through August 7, 2001. The Consolidated Class Action Complaint names the following defendants: Infonet; our Chief Executive Officer and Chairman, Jose A. Collazo; our Chief Financial Officer, Akbar H. Firdosy; certain of our current and former Board of Director members: Douglas Campbell, Eric M. de Jong, Morgan Ekberg, Masao Kojima, Joseph Nancoz and Rafael Sagrario; the holders of our Class A common stock: KDDI Corporation, KPN Telecom, Swisscom AG, Telefonica International Holding B.V., Telia AB and Telstra Corporation Ltd; and the underwriters of our initial public offering: Merrill Lynch & Co., Warburg Dillon Read LLC, ABN AMRO Inc., Goldman Sachs & Co., Lehman Brothers Inc. and Salomon Smith Barney Inc.

The Consolidated Class Action Complaint alleges that defendants made misrepresentations and omissions regarding the AUCS channel in our Form S-1 registration statement and the accompanying prospectus for our initial public offering of Class B common stock and in other statements and reports during the class period. The plaintiffs assert counts against us and our officers and directors for violations of Sections 11, 12 and 15 of the Securities Act of 1933 and violations of Section 20(a) and 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The plaintiffs have requested a judgment determining that the lawsuit is a proper class action, awarding compensatory damages and/or rescission, awarding costs of the lawsuit and awarding such other relief as the court may deem just and proper. All of the defendants have filed motions to dismiss the Consolidated Class Action Complaint, which are set for hearing on July 21, 2003.

On March 1, 2002, the first of three shareholder derivative suits was filed in Los Angeles County Superior Court against us as a nominal defendant and certain current and former members of our Board of Directors. On August 23, 2002, the Court entered an order consolidating the three actions under the lead case, *Benny v. Collazo et al*., Case No. BC 269140, and appointing lead counsel. On September 20, 2002, plaintiffs filed a Consolidated Derivative Complaint.

On January 16, 2003, defendants demurrer to the Consolidated Derivative Complaint was sustained, and plaintiffs were given leave to file an amended complaint. Plaintiffs filed a First Amended Consolidated Derivative Complaint (First Amended Complaint) dated January 30, 2003. The First Amended Complaint alleged that the defendants breached their duties toward us either through their alleged participation in, or alleged failure to adequately oversee, the purported conduct and events that are alleged in the securities class action lawsuits described above, including a claim against the holders of our Class A common stock for alleged insider trading under California Corporations Code Section 25402. The First Amended Complaint sought monetary damages from defendants on our behalf, as well as equitable and injunctive relief, including the imposition of a constructive trust.

In an order dated May 16, 2003, the Court sustained defendants demurrer with leave to amend. On May 27, 2003 plaintiffs filed a Second Amended Consolidated Derivative Complaint (Second Amended Complaint) which named us as a nominal defendant and Messrs. Collazo, Arai, Campbell, de Jong, Ekberg, Hartman, Karrer, O Rourke, Sagrario and Firdosy as defendants. In addition to the previously asserted causes of action, the Second Amended Complaint asserts a cause of action against Messrs. Campbell, de Jong, Ekberg and Sagrario for alleged violation of California Corporations Code Section 25403. Defendants demurrer to the Second Amended Complaint is scheduled for hearing on July 1, 2003.

We are unable at this time to predict the outcome of either of these actions. As of this date, we do not believe that these, or any other litigations to which we are a party, could reasonably be expected to have a material adverse effect on our business or financial condition. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings. We have not been involved in any litigation that has had a material adverse effect on our business or financial condition in the past three years. From time to time, we may be involved in other litigation that arises in the normal course of our business operations.

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

No matters were submitted to a vote of security holders during the fourth quarter ended March 31, 2003.

PART II

Item 5. *Market for Registrant s Common Equity and Related Stockholder Matters*

There is no established public trading market for our Class A common stock. As of June 15, 2003, there were six stockholders of record of our Class A common stock. Our Class B common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol IN. During fiscal year 2003, we filed an application with the Frankfurt Stock Exchange (the FSE) to voluntarily delist our securities from trading on the FSE. The FSE granted our application, and the delisting was effective as of April 14, 2003. As of June 15, 2003, there were approximately 559 stockholders of record of our Class B common stock, par value $.01 per share. The following table sets forth, for the period indicated, the high and low closing sales price for our Class B common stock as reported on the NYSE.

Fiscal Year Ended March 31, 2002	High	Low
First Quarter	$ 8.75	$ 6.10
Second Quarter	8.70	1.88
Third Quarter	2.69	1.48
Fourth Quarter	2.67	1.90
Fiscal Year Ended March 31, 2003	**High**	**Low**
First Quarter	$ 2.48	$ 1.69
Second Quarter	2.63	2.12
Third Quarter	2.39	1.92
Fourth Quarter	2.08	1.14

Dividend Policy

We have not paid any dividends on our common stock since we became a public company, and we do not expect to pay any dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business. Any determination to pay cash dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, contractual restrictions and other factors deemed relevant at that time by our board of directors.

Sales of Unregistered Securities

We have made no sales of unregistered securities during the fiscal year ended March 31, 2003.

Use of Proceeds

On December 15, 1999, our Form S-1 registration statement (File No. 333-88799) was declared effective by the Securities and Exchange Commission. The registration statement, as amended, covered the offering of 51,282,300 shares of our Class B common stock. The offering commenced on December 16, 1999 and the sale to the public of 51,282,300 shares of common stock at $21.00 per share was completed on December 21, 1999 for an aggregate price of approximately $1.076 billion. The registration statement covered an additional 7,692,342 shares of common stock that the underwriters had the option to purchase solely to cover over-allotments. These additional shares were purchased on January 13, 2000. The managing underwriters were Merrill Lynch & Co., Warburg Dillon Read LLC, ABN AMRO Rothschild, Goldman, Sachs & Co., Lehman Brothers and Salomon Smith Barney. Expenses incurred in connection with the issuance and distribution of common stock in the offering included underwriting discounts, commissions and allowances of approximately $38.5 million and other expenses of approximately $2.4 million. Total offering expenses of approximately $40.9 million resulted in net offering proceeds to us of approximately $766.8 million. Specified 10% owners of our Class B common stock participated in the offering and received, net of expenses paid by those owners, an aggregate of $256.4 million.

We have used and continue to use aggregate net proceeds to us of approximately $766.8 million from our initial public offering as follows:

- the repayment of long-term debt under our credit facility of approximately $60.0 million;
- the repayment of long-term building mortgage indebtedness of approximately $25.5 million;
- the purchase of assets that were under operating leases for approximately $7.0 million;
- expansion of our network infrastructure, including purchased bandwidth and continued deployment of our ATM-based network, for approximately $477.0 million;
- the purchase of an office building to accommodate our future growth for approximately $25.3 million;
- the repurchase of shares of our Class B common stock for approximately $14.8 million;
- to fund working capital needs of approximately $45.2 million; and
- for general corporate purposes of approximately $40.4 million.

Our management, subject to supervision by our board of directors, has significant flexibility in applying the net proceeds of the offering. Pending any use as described above, we have invested the net proceeds in investment grade marketable securities.

Additional information required by this Item is provided pursuant to Item 12 of this Annual Report on Form 10-K.

Item 6. ***Selected Consolidated Financial Data***

The following table sets forth our selected consolidated financial data. You should read this information together with our consolidated financial statements and the related notes to those statements appearing elsewhere in this annual report and with Management s Discussion and Analysis of Financial Condition and Results of Operations. The selected consolidated financial data as of March 31, 1999, 2000 and 2001 and for each of the years in the two year period ended March 31, 2000 have been derived from our audited consolidated financial statements which are not included in this annual report. The selected consolidated financial data as of March 31, 2002 and 2003 and for each of the years in the three year period ended March 31, 2003 have been derived from our audited consolidated financial statements which appear elsewhere in this annual report. The historical results are not necessarily indicative of the operating results to be expected in the future.

	Year Ended March 31,(1)				
	1999	2000	2001	2002	2003
	(In thousands, except per share amounts)				
Consolidated statement of operations data:					
Services revenues, net	$ 302,997	$ 481,444	$ 661,945	$ 645,779	$ 580,543
Management contract incentive fee					73,653
Total revenues	302,997	481,444	661,945	645,779	654,196
Operating costs and expenses(2):					
Communication services costs	53,734	129,656	174,223	155,848	102,429
Integration and provisioning costs	70,954	97,574	149,449	162,321	171,091
Bandwidth and related costs	38,847	76,398	107,860	109,888	148,676
Network operations	50,332	64,102	79,504	102,188	123,542
Selling, general and administrative	87,303	142,554	127,222	140,198	155,637
Total operating costs and expenses	301,170	510,284	638,258	670,443	701,375
Operating income (loss)	1,827	(28,840)	23,687	(24,664)	(47,179)
Other income (expense):					
Interest income	1,881	14,560	43,293	25,029	14,366
Interest expense	(689)	(7,162)	(11,892)	(11,061)	(6,777)
Other, net	382	(1,310)	49	392	(2,301)
Total other income, net	1,574	6,088	31,450	14,360	5,288
Income (loss) before provision (credit) for income taxes and minority interest	3,401	(22,752)	55,137	(10,304)	(41,891)
Provision (credit) for income taxes	(180)	3,996	27,680	2,164	177,559
Income (loss) before minority interest	3,581	(26,748)	27,457	(12,468)	(219,450)
Minority interest	132	(43)	224	851	476
Net income (loss)(3)	$ 3,449	$ (26,705)	$ 27,233	$ (13,319)	$ (219,926)
Basic and diluted earnings (loss) per common share(3)(4)	$ 0.01	$ (0.06)	$ 0.06	$ (0.03)	$ (0.47)
Basic weighted average number of common shares outstanding	373,750	417,197	470,712	471,058	468,670
Diluted weighted average number of common shares outstanding	373,750	417,197	472,599	471,058	468,670

Other consolidated financial data:					
Net cash provided by (used in):					
Operating activities	$ 11,911	$ 25,620	$ 71,633	$ 100,836	$ 93,966
Investing activities	(20,679)	(145,691)	(669,795)	(80,237)	23,990
Financing activities	5,828	839,613	9,514	(10,698)	(122,036)

	As of March 31,[1]				
	1999	2000	2001	2002	2003
	(Dollars in thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	$ 8,681	$ 727,681	$ 137,599	$ 147,180	$ 146,730
Total current assets	90,277	940,746	810,229	727,663	617,045
Total assets	182,263	1,222,327	1,345,931	1,410,139	1,094,727
Current liabilities	73,271	203,565	262,466	169,920	169,629
Total debt	15,837	117,782	126,079	118,171	6,232
Total stockholders equity	76,717	876,051	927,753	1,097,791	882,678
Other operating data:					
Number of ports	10,590	14,468	16,772	18,836	20,081
Number of country representatives	56	55	55	57	58
Number of dedicated personnel:					
U.S.	573	636	718	711	674
Non-U.S.[5]	678	704	802	877	996

(1) Our fiscal year is the 52 or 53-week period ending on the Friday nearest to March 31. For simplicity of presentation, we have described the 52-week periods ended April 2, 1999, March 31, 2000, March 30, 2001, March 29, 2002 and March 28, 2003 as the years ended March 31, 1999, 2000, 2001, 2002 and 2003, respectively.

(2) Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The material reclassifications are described more thoroughly in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

(3) The years ended March 31, 2000, 2001, 2002 and 2003 include a non-cash, pre-tax compensation charge of $33.4 million, $11.1 million, $16.6 million and $13.5 million, respectively, resulting from the conversion of our stock appreciation rights and our stock options from book value options and rights to market value options and rights in connection with our initial public offering. The charge in the year ended March 31, 2001 is net of a $5.3 million non-recurring credit resulting from an amendment to one of our stock-based compensation plans.

(4) As of March 31, 1998, there were no options, warrants or other forms of potential common stock issued by us. Our outstanding common stock purchase rights represent the only form of potential common stock as of March 31,1999. All of these rights were excluded from the computation of diluted earnings per share in 1999 because their inclusion would have had an antidilutive effect on earnings per share. Our outstanding common stock options represent the only form of potential common stock as of March 31, 2000. All of these options were excluded from the computation of diluted earnings per share in 2000 because their inclusion would have had an antidilutive effect on earnings per share. Our outstanding common stock purchase rights and stock options represent the only form of potential common stock as of March 31, 2001, 2002 and 2003. The dilutive effect of outstanding purchase rights and stock options on earnings per share in 2001 was insignificant. All of the outstanding purchase rights and stock options were excluded from the computation of diluted earnings per share in 2002 and 2003 because their inclusion would have had an antidilutive effect on earnings per share.

(5) Includes employees of non-consolidated country representatives.

Quarterly Operating Performance

The following tables set forth unaudited quarterly financial data for the fiscal years ended March 31, 2002 and 2003.

	Three Months Ended,			
	June 30, 2002	September 30, 2002	December 31, 2002	March 31, 2003
	(Dollars in thousands, except per share amounts)			
Revenues	$ 147,307	$ 142,815	$ 198,294	$ 165,780
Operating income (loss)	(54,626)	(12,880)	31,977	(11,650)
Net income (loss)	(36,420)	(6,217)	18,229	(195,518)
Basic and diluted earnings (loss) per common share	$ (0.08)	$ (0.01)	$ 0.04	$ (0.42)

	Three Months Ended,			
	June 30, 2001	September 30, 2001	December 31, 2001	March 31, 2002
	(Dollars in thousands, except per share amounts)			
Revenues	$ 171,854	$ 160,230	$ 155,100	$ 158,595
Operating income (loss)	117	(10,857)	(8,712)	(5,212)
Net income (loss)	2,530	(3,502)	(8,808)	(3,539)
Basic and diluted earnings (loss) per common share	$ 0.01	$ (0.01)	$ (0.02)	$ (0.01)

Our revenues and operating income vary from quarter to quarter due to a number of factors including the timing of new client contracts, new service offerings, changes in our pricing policies or those of our competitors and the timing of our continued network expansion. Our operating income (loss) also varies from quarter to quarter due to timing of expenses related to provisioning of our services. Our net income (loss) varies from quarter to quarter due to changes in income tax expenses related to our ability to realize our deferred tax assets. Quarterly results are not necessarily meaningful and you should not rely on them as an indication of our future performance.

In the fourth quarter of fiscal year 2003 we recorded a valuation allowance of approximately $181.7 million against our entire net domestic deferred tax assets. This valuation allowance is discussed more fully under Critical Accounting Policies below.

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

You should read this discussion together with our consolidated financial statements and the related notes to those statements appearing elsewhere in this annual report. All statements contained within the Management s Discussion and Analysis of Financial Condition and Results of Operations that are not statements of historical fact constitute Forward-Looking Statements within the meaning of Section 21E of the Securities Exchange Act. These forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to be materially different from historical results or from any future results expressed or implied by these forward-looking statements. You are urged to consider statements that include the terms believe , belief , expects , plans , anticipates , intends or the like to be uncertain and forward-looking. Forward-looking statements also include projections of financial performance, statements regarding management s plans and objectives and statements concerning any assumptions relating to the foregoing. Certain important factors regarding our business, operations and competitive environment, which may cause actual results to vary materially from these forward-looking statements, are discussed above under the caption Risk Factors.

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

We provide cross-border managed data communications services to multinational corporations worldwide. We offer our services to our clients directly through country representatives and indirectly through alternate sales channels consisting of major international telecommunications carriers and value-added resellers. We deploy a broad array of fully managed data communications services over our reliable, secure, and high quality global network, which we refer to as The World Network. The World Network is an extensive and versatile network that can be accessed by our clients from over 180 countries.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which we have prepared in accordance with accounting principles generally accepted in the United States of America. Our preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and on other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies reflect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Income Taxes

During the year ended March 31, 2001, we filed a request for determination from the Internal Revenue Service, or IRS, regarding the propriety of establishing an intangible asset, for tax purposes only, arising in connection with a September 1999 transaction with three stockholders in which we obtained access to certain customers served by AUCS and cash of $40.0 million in exchange for the issuance to the three stockholders of 47.84 million shares of our Class B common stock. In November 2001, we received a favorable determination from the IRS that an intangible asset relating to the access to these customers was created by the transaction. The intangible asset, which may be amortized in our tax returns over a period of fifteen years, was determined to have a value of $445.0 million. Accordingly, in the fiscal year ended March 31, 2002, we recorded a deferred tax asset of approximately $171.0 million, representing the deferred tax benefit assuming an estimated 38.5% tax rate. United States Securities and Exchange Commission Staff Accounting Bulletin 48, Transfer of Nonmonetary Assets by Promoters or Shareholders, requires that transfers of nonmonetary assets to a company by stockholders in exchange for stock prior to or at the time of a company s initial public offering be recorded at the transferor s historical cost basis. Accordingly, for financial statement purposes, the access to these customers was valued at the stockholders basis of $0. Correspondingly, the $171.0 million credit resulting from the recognition of the deferred tax asset was reflected as an increase in stockholders equity, net of directly related costs.

At March 31, 2003, the unadjusted net book value of our deferred tax assets totaled approximately $183.0 million, which was principally comprised of the remaining carrying value of the intangible asset discussed above of approximately $131.6 million and the benefit associated with domestic tax losses, incurred during the years ended March 31, 2002 and March 31, 2003, of approximately $37.8 million. The provisions of SFAS No. 109 Accounting for Income Taxes , require a valuation allowance when, based upon currently available information and other factors, it is more likely than not that all or a portion of the deferred tax asset will not be realized. SFAS No. 109 provides that an important factor in determining whether a deferred tax asset will be realized is whether there has been sufficient income in recent years and whether sufficient income is expected in future years in order to utilize the deferred tax asset. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years. The existence of cumulative losses in recent years is an item of negative evidence that is particularly difficult to overcome. During our fiscal 2003 fourth quarter-end, based on our estimates of fiscal year 2004 operating performance, we determined that it is likely that we will incur a cumulative loss for the three-year period that includes fiscal years 2002, 2003 and 2004. We believe this determination represents negative evidence such that SFAS No. 109 requires that we realize a valuation allowance related to our intangible deferred tax asset. Accordingly, in the fourth quarter we recorded a valuation allowance of approximately $181.7 million against our entire net domestic deferred tax assets. We intend to maintain a valuation allowance until sufficient evidence exists to support its reversal. Also, until an appropriate level of profitability is reached, we do not expect to recognize any domestic tax benefits in future results of operations.

We believe that our determination to record a valuation allowance to reduce our deferred tax assets is a critical accounting estimate because it is based on an estimate of future taxable income in the United States, which is susceptible to change and dependent upon events that are remote in time and may or may not occur, and because the impact that recording a valuation allowance has on the assets reported on our balance sheet is material.

We operate, and are subject to income taxes, in many foreign jurisdictions and in many taxable jurisdictions around the world. As a result, our reported tax provisions are based, in part, on our judgments as to the amount of income that may be subject to tax in certain foreign jurisdictions.

Our management has discussed these critical accounting estimates and judgements with the audit committee of our board of directors and the audit committee has reviewed this related disclosure.

Purchased Bandwidth

We monitor and evaluate the viability of the network service providers from which we have purchased bandwidth. The term purchased bandwidth refers to transmission capacity contractually acquired under long-term prepaid leases, capitalized leases and indefeasible rights of use, or IRUs. In instances where the network services provider is determined to be no longer viable and any disruption of service is permanent, we will write-off the remaining net book value of the asset.

Included in our property, equipment and communication lines is purchased bandwidth with a net book value of $231.8 million as of March 31, 2003. Purchased bandwidth with a net book value of approximately $11.0 million as of March 31, 2003 was purchased from a company which has filed a voluntary petition for Chapter 11 protection with the United States Bankruptcy Court or made analogous petitions in other jurisdictions and has not completed those proceedings. We refer to these assets as at-risk purchased bandwidth. While the company has not completed its bankruptcy proceedings, we believe, based on information available to us, that the bankruptcy proceedings will not affect our purchased bandwidth, and we have not recognized an impairment of the purchased bandwidth as of March 31, 2003. However, if we experience a permanent disruption in services on these facilities as a result of these bankruptcy proceedings, a charge may be recorded to write-off the purchased bandwidth.

During the fiscal years ended March 31, 2002 and March 31, 2003, we wrote-off purchased bandwidth with a net book value of $1.6 million and $40.8 million, respectively. At March 31, 2002, we reported that our additional at-risk purchased bandwidth had a net book value of $44.1 million. This purchased bandwidth, which did not include the purchased bandwidth that was written off during the year ended March 31, 2003, is no longer considered to be at risk as the carriers have emerged from bankruptcy proceedings or have otherwise had a change in circumstances such that we believe a permanent disruption of service from these carriers is unlikely. The purchased bandwidth that was written off during the year ended March 31, 2003 was determined to be at risk during the year ended March 31, 2003. Finally, during the year ended March 31, 2003, we determined that the $11.0 million of purchased bandwidth referred to in the preceding paragraph is at-risk as a result of bankruptcy proceedings.

We believe that our determination not to recognize an impairment of the at-risk purchased bandwidth is a critical accounting estimate because it is susceptible to change and dependent upon events that are remote in time and may or may not occur, and because the impact that recognizing an impairment of the purchased bandwidth would have on the assets reported on our balance sheet would be material. If, at March 31, 2003, we were to recognize an impairment of the at-risk purchased bandwidth in the total amount of our current at-risk purchased bandwidth, our property, equipment and communication lines would decrease from $231.8 million to $220.8 million, or 5%.

Our determination relating to the value of the purchased bandwidth is subject to change. The court in the bankruptcy proceeding may determine that we are not entitled to use of the bandwidth. If this occurs, we would likely experience a permanent disruption in service on that bandwidth and the fair value of the bandwidth would likely be significantly decreased. At that point we would record an impairment charge equal to the net book value of the purchased bandwidth.

Our management has discussed this critical accounting estimate with the audit committee of our board of directors and the audit committee has reviewed this related disclosure.

Long-Lived Assets

We monitor and evaluate the recoverability of our long-lived assets. If the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows, we recognize an impairment loss in the amount of the difference between the carrying amount and the fair value of the asset. Our most significant long-lived asset subject to impairment is our owned network, which had a net book value of $347.7 million as of March 31, 2003. We currently estimate that undiscounted cash flows will be sufficient to recover the value of our long-lived assets. However, our estimates of cash flows are subject to change. Should our estimates of future undiscounted cash flows indicate that the carrying value of our long-lived assets may not be recoverable, we would be required to determine the fair value of those assets and record a loss for the difference between the carrying value and the fair value of those assets.

We believe that our determination not to recognize an impairment loss on our long-lived assets is a critical accounting estimate because it is susceptible to change and dependent upon events that are remote in time and may or may not occur, and because the impact that recognizing an impairment loss would have on the assets reported on our balance sheet would be material. If our estimated future undiscounted cash flows were to decrease a hypothetical ten-percent, the long-lived assets continue to be recoverable and we would not be required to recognize an impairment of our long-lived assets.

Our determination relating to the value of the long-lived assets is subject to change because it is based on our estimates of future cash flows. We believe that the undiscounted cash flows are sufficient to recover the carrying value of our long-lived assets.

Our management has discussed this critical accounting estimate with the audit committee of our board of directors and the audit committee has reviewed this related disclosure.

Valuation Allowance for Revenue Credits and Accounts Receivable

We make estimates of future client credits for the services provided during the reporting period through the analysis of historical trends and known events. Management s judgment and estimates must be made and used in connection with establishing the revenue reserves associated with discounts earned on special client agreements and billing reserves for pricing changes and client disputes. Material differences may result in the amount and timing of our revenue adjustments if management projections differ from actual results. Similarly, our management must make estimates regarding the collectibility of our accounts receivable. We specifically analyze accounts receivable including historical bad debts, client concentrations, client credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts.

The valuation allowance for revenue credits and accounts receivable was $14.9 million and $17.7 million as of March 31, 2002 and 2003, respectively. The increase is primarily due to the $5.7 million bad debt expense related to the bankruptcies of several of our resellers. If management over or under estimated the reserves by a hypothetical ten-percent, the valuation allowance for revenue credits and accounts receivable would decrease or increase by $1.8 million.

We believe that our valuation allowance for revenue credits and accounts receivable is a critical accounting estimate because it is susceptible to change and dependent upon events that are remote in time and may or may not occur, and because the impact that recognizing an impairment loss would have on the assets reported on our balance sheet would be material.

Our determination relating to the valuation allowance is subject to change because it is based on management s current estimates of required reserves and potential adjustments.

Our management has discussed this critical accounting estimate with the audit committee of our board of directors and the audit committee has reviewed this related disclosure.

Outsourcing and Management Agreements with AUCS

On October 1, 2002, our three-year arrangement with AUCS Communications Services N.V., Unisource, the then owner of AUCS (Unisource has since been liquidated), and the three companies that own AUCS KPN, Swisscom and Telia was terminated by its terms.

Services Agreement During the three-year term of our arrangement with AUCS, we assumed AUCS obligations to provide various services to its clients. Our services agreement with AUCS provided us gross margins of approximately 20% on the provision of these services. The revenues and expenses resulting from this arrangement are referred to in this report as outsourcing services revenues and expenses. We also obtained access to multinational corporate clients served by AUCS and increased the number of multinational corporate clients to which we could offer our services, with the expectation that, over time, this would result in the normal and transparent transition of some of these multinational clients onto The World Network and the use of our services. As a result of the AUCS arrangement, we were successful in transitioning approximately 237 AUCS clients to the Infonet platform. Subsequent to the termination of the AUCS arrangement on October 1, 2002, we no longer receive revenue associated with the provisioning of AUCS services.

Through March 31, 2003, we transitioned 237 clients from the AUCS platform to our services, substantially all of which were transitioned during the year ended March 31, 2003. The revenues generated from transitioned clients during the year ended March 31, 2003 were approximately $17.9 million per quarter at the time of their transition. The 237 transitioned clients include 54 clients who, over the course of our outsourcing arrangement with AUCS, had also become our clients by purchasing Infonet services, and 27 clients who had regional networks and have since discontinued our service. This resulted in a net increase of 156 Infonet clients. During prior periods, most of the revenues from these 237 clients were reported as outsourcing services revenues.

As clients transitioned from the AUCS platform to our services, revenues and the number of clients by channel generally shifted from alternate sales channels to country representatives (direct channels). As of March 31, 2003, we no longer have outsourcing services clients; this compares to 636 outsourcing services clients (135 direct channel clients and 501 alternate sales channel clients) as of March 31, 2002. The 501 decrease in alternate sales channel clients includes 156 clients that transitioned to our services and primarily became non-outsourcing services direct channel clients.

For each of the fiscal years ended March 31, 2001, 2002 and 2003, outsourcing services revenues have been reported in Consulting, Integration & Provisioning Services (for access related services) and Other Communications Services (for all other services). To the extent the business has transitioned onto the Infonet platform, these revenues are no longer reflected in Other Communications Services, but instead are reported in the appropriate product-based category. Access related services for the transitioned clients continue to be reported in Consulting, Integration and Provisioning Services. Revenues by region were not affected by the transition because revenues from these clients when they were reported as outsourcing services were included in the EMEA region and continue to be included in the EMEA region after the transition to our platform.

Our expenses related to outsourcing services revenues had been approximately 80% of the revenues we received from clients using the AUCS platform and we had reported this expense as country representative compensation. To the extent that transitioned business is managed by our non-consolidated country representatives, we make country representative compensation payments, based on current agreements, to the respective country representative. To the extent the business is sold through alternate channels, there is no country representative compensation, but we now incur incremental expense for multinational support compensation. The country representative compensation and support compensation are reported in Communication Services Costs and Integration and Provisioning Costs based on the related service. Additionally, the incremental Bandwidth and Related Costs, Network Operations, and Sales, General, and Administrative expenses associated with these revenues are also included in the appropriate category. With the termination of the AUCS services agreement, we no longer have the contractual right to a gross margin of approximately 20%. The revenue that has transitioned to the Infonet platform now generates approximately the same profit margins as existing Infonet business.

Management Agreement The AUCS arrangement also included a three-year management agreement that terminated on October 1, 2002. Under the management agreement, we received a fee equal to 1.5% of the revenues associated with the AUCS services, subject to a defined maximum. During the years ended March 31, 2001, 2002 and 2003, we recognized approximately \$3.7 million, \$4.0 million, and \$1.7 million, respectively, in management fees. The decrease in management fees for the year ended March 31, 2003 principally resulted from the termination of the management agreement half way through the fiscal year.

The management agreement also provided for an incentive fee payment payable upon termination of the management agreement based upon our achieving certain performance criteria. The incentive fee payment was equal to the amount by which AUCS Entities Adjusted EBITDA Losses (as defined in the management agreement) for the period from October 1, 1999 to September 30, 2002 was less than Euro 295.3 million. In accordance with the terms of the management agreement, we presented a claim for the incentive fee payment. We received and recognized as revenue a payment of Euro 56.0 million (approximately \$56.7 million) on December 15, 2002. In March 2003 the parties entered into an Incentive Payment Agreement in which we agreed upon the final incentive fee payment of Euro 77.0 million, which includes the Euro 56.0 million already paid. In accordance with the Incentive Payment Agreement, Euro 5.0 million of the unpaid portion (Euro 21.0 million) of the incentive fee was placed in an escrow account for final disposition pending resolution of certain contingencies. We expect this resolution to occur by March 31, 2004. Accordingly, we have recognized as revenue Euro 16.0 million (approximately \$16.9 million) during the three months ended March 31, 2003. During the year ended March 31, 2003 we recognized Euro 72.0 million (approximately \$73.7 million) as incentive fee revenues.

Termination Agreement In order to memorialize the termination of the AUCS arrangement, we entered into a termination and transition agreement as of September 30, 2002 with the parties to the AUCS agreements. The agreement provided for among other things: (i) the provision of certain services by us to AUCS and by AUCS to us for a limited period of time beginning October 1, 2002 and continuing through April 2003, in order to ensure a smooth transition after the termination of the management agreement and (ii) the terms of payment of certain fees and costs related to the termination and transition arrangements. Separately, we purchased various network equipment located across Europe from the AUCS business for approximately \$1.5 million.

Components of Revenues

We measure revenue by three different means: by service, by distribution channel and by region.

Revenues by Service

Our revenues are derived from providing a broad range of integrated service solutions to our multinational clients worldwide. The revenue is classified in the following categories:

Network Services which includes revenues from Intranet, Internet, Multimedia and Wireless/Remote Access services;

Consulting, Integration and Provisioning Services which includes revenues from consulting, design, installation and implementation of each client s particular networking needs; satellite connectivity; and our Global Connect services, whereby we install and manage leased lines and customer premise equipment at the client s site to enable the client to access The World Network and use our Network Services;

Applications Services which includes revenues from messaging, collaboration, managed extranet, call center, security and other value-added services; and

Other Communications Services which includes revenues from X.25 transport services and other communications services as well as service access fees.

We currently derive a majority of our revenues from the sale of Network Services, specifically intranet services, wireless/remote access and Internet services. Intranet services comprise a majority, approximately 80%, of our Network Services revenues. We expect that Network Services will continue to constitute the largest component of our revenue base going forward. We also anticipate that a significant portion of our future revenue growth will come from Network Services and Consulting, Integration and Provisioning Services. Our Other Communications Services revenues include outsourcing services under the arrangements with AUCS, which terminated in October 2002 (see discussion above). Excluding outsourcing services, Other Communication Services revenues have declined over the last two fiscal years. We expect this decline to continue as our clients transfer to non X.25 based transport services.

Revenues by Distribution Channel

We offer our services through country representatives and through alternate sales channels such as major telecommunication service providers, value-added resellers, and licensed distributors. In the year ended March 31, 2003, country representatives contributed 86% of our total revenues, while alternate sales channels contributed 14% of our total revenues. Most of the outsourcing services revenues have been categorized as alternate sales channel revenue.

Country Representatives As of March 31