

INFONET SERVICES CORP
Form 10-Q
August 11, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2004

OR

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

For the transition period from to

Commission file number 1-15475

INFONET SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

95-4148675
(I.R.S. Employer
Identification No.)

2160 East Grand Avenue, El Segundo, California

(Address of principal executive offices)

90245

(Zip Code)

(310) 335-2600

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed under Sections 12, 13 or 15(d) of the Securities Exchange of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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As of August 6, 2004, the registrant had the following number of shares outstanding:

Class A common stock: 161,403,358

Class B common stock: 304,080,922

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Table of Contents**PART I****FINANCIAL INFORMATION****Item 1. Financial Statements****INFONET SERVICES CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In Thousands, Except per Share Amounts)**

	March 31,	June 30,
	2004	2004
	<u> </u>	<u> </u>
		(Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 137,071	\$ 172,362
Short-term investments	256,527	206,885
Accounts receivable, net	143,417	128,659
Deferred income taxes	740	152
Prepaid expenses	35,282	33,201
Other current assets	17,576	17,958
	<u> </u>	<u> </u>
Total current assets	590,613	559,217
PROPERTY, EQUIPMENT AND COMMUNICATION LINES, Net	408,658	402,137
INTANGIBLE AND OTHER ASSETS, Net	59,036	60,543
	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 1,058,307	\$ 1,021,897
	<u> </u>	<u> </u>
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of capital lease obligations	\$ 1,448	\$ 1,450
Accounts payable	56,959	41,073
Network communications	23,795	27,113
Accrued salaries and related benefits	24,992	16,425
Income taxes payable	6,722	5,509
Advance billings	31,507	32,408
Deferred installation revenues	13,882	14,316
Other accrued expenses	27,183	27,910
	<u> </u>	<u> </u>
Total current liabilities	186,488	166,204
	<u> </u>	<u> </u>

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DEFERRED REVENUE	21,351	21,541
DEFERRED COMPENSATION	19,775	20,643
CAPITAL LEASE OBLIGATIONS, Less Current Portion	2,660	2,287
MINORITY INTEREST	1,491	1,636
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Class A common stock, \$0.01 par value per share:		
400,000 shares authorized; 364,160 shares issued as of March 31, 2004 and June 30, 2004; 161,403 shares outstanding as of March 31, 2004 and June 30, 2004; 202,757 shares held in treasury as of March 31, 2004 and June 30, 2004		
	66,078	66,078
Class B common stock \$0.01 par value per share:		
600,000 shares authorized; 312,876 and 315,260 shares issued as of March 31, 2004 and June 30, 2004; 301,683 and 304,067 shares outstanding as of March 31, 2004 and June 30, 2004; 11,193 shares held in treasury as of March 31, 2004 and June 30, 2004		
	1,199,486	1,203,348
Treasury stock, at cost, 213,950 shares as of March 31, 2004 and June 30, 2004	(142,727)	(142,727)
Deferred compensation on restricted stock		(2,816)
Notes receivable from issuance of common stock	(7,334)	(7,424)
Accumulated deficit	(292,317)	(308,084)
Accumulated other comprehensive income	3,356	1,211
Total stockholders equity	826,542	809,586
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,058,307	\$ 1,021,897

See accompanying notes to consolidated financial statements.

Table of Contents**INFONET SERVICES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS****(In Thousands, Except per Share Amounts)****(Unaudited)**

	Three Months Ended	
	June 30,	
	2003	2004
REVENUES, Net	\$ 149,063	\$ 157,584
OPERATING COSTS AND EXPENSES:		
Communication services costs	21,513	20,613
Integration and provisioning costs	54,191	59,332
Bandwidth and related costs	26,698	22,185
Network operations	30,666	31,474
Selling, general and administrative	35,565	39,622
Total operating costs and expenses	168,633	173,226
OPERATING LOSS	(19,570)	(15,642)
OTHER INCOME (EXPENSE):		
Interest income	2,132	1,784
Interest expense	(126)	(84)
Equity in losses of unconsolidated affiliates	(739)	(796)
Other, net	(933)	(166)
Total other income, net	334	738
LOSS BEFORE PROVISION FOR INCOME TAXES AND MINORITY INTEREST	(19,236)	(14,904)
PROVISION FOR INCOME TAXES	644	619
LOSS BEFORE MINORITY INTEREST	(19,880)	(15,523)
MINORITY INTEREST	(82)	244
NET LOSS	(19,798)	(15,767)
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustments	2,615	(557)
Unrealized losses on securities, net of tax	(59)	(1,588)
Total other comprehensive income (loss)	2,556	(2,145)

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COMPREHENSIVE LOSS	\$ (17,242)	\$ (17,912)
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.04)	\$ (0.03)
BASIC WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	464,775	463,133
DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	464,775	463,133

See accompanying notes to consolidated financial statements.

Table of Contents**INFONET SERVICES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands)****(Unaudited)**

	Three Months Ended June 30,	
	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (19,798)	\$ (15,767)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	19,562	21,673
Equity in losses of unconsolidated affiliates	739	796
Stock-based compensation charge	2,779	230
Loss on disposal of property, equipment and communication lines	499	43
Premium amortization on marketable securities	1,262	1,127
Realized (gain) loss on marketable securities	(136)	26
Deferred income taxes	(114)	587
Minority interest	(82)	244
Changes in operating assets and liabilities:		
Accounts receivable, net	3,855	14,380
Prepaid expenses	(2,374)	2,012
Other current assets	236	47
Accounts payable	(909)	(13,094)
Network communications	4,031	376
Accrued salaries and related benefits	(7,667)	(8,538)
Income taxes payable	(356)	(1,150)
Advance billings	3,518	900
Other accrued expenses	861	462
Deferred compensation	85	922
Purchases of trading securities	(3,195)	(2,166)
Proceeds from sale of trading securities	2,360	2,157
Other operating activities	(327)	58
Net cash provided by operating activities	4,829	5,325
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, equipment and communication lines	(16,790)	(13,981)
Purchases of securities available-for-sale	(85,693)	(8,446)
Proceeds from sales of securities available-for-sale	69,912	20,097
Maturities of securities available-for-sale	6,198	35,250
Investments in unconsolidated affiliates	(1,000)	
Additional consideration in business acquisition		(3,000)
Other investing activities	(14)	
Net cash (used in) provided by investing activities	(27,387)	29,920

(Table continued on following page)

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INFONET SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In Thousands)

(Unaudited)

	Three Months Ended June 30,	
	2003	2004
	_____	_____
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of capital lease obligations	\$ (707)	\$ (371)
Purchases of treasury stock	(2,888)	
Net proceeds from issuance of common stock		