

In the United States, there are several facilities-based long distance fiber optic networks competing with our NAC cable system, including those of AT&T, Sprint, MCI WorldCom, Qwest, GTE, Broadwing Communications, Level 3 Communications and Williams Communications.

Installation and Maintenance Services

Although Global Marine Systems is the world's largest undersea cable installation and maintenance company, with approximately 25% of the industry's total vessels, it faces potential competition not only from existing market participants but also from potential new entrants. There are currently three other major supply companies in the undersea cable industry: TSSL, Alcatel and KDD-SCS. Pirelli also has a presence in the industry, and there are a number of smaller suppliers which have focused primarily on regional routes or non-repeated systems. It is unclear whether TSSL will continue to provide significant installation and maintenance services to others following its announcement that it is constructing its own worldwide cable network.

ILEC Services

We face many competitors in the provision of equipment and facilities used in connection with our local exchange networks, as this market has become increasingly competitive in recent years. The market for the provision of local services itself is now competitive in Rochester, New York, as a result of the Open Market Plan, and the Telecom Act is likely to result in significantly greater competition in other markets. The Company's telephone properties outside the Rochester, New York, area are experiencing competition in limited areas.

Long distance companies largely access their end user customers through interconnection with local exchange companies. These long distance companies pay access fees to the local exchange companies for these services. The provision of access services in Rochester and elsewhere by our ILEC services segment is considered to be competitive.

Regulation

Our submarine and terrestrial fiber optic cable systems and telecommunications services are subject to regulation at the federal, state, and local levels in the United States, as well as regulation by regulatory agencies in the various foreign countries in which we have facilities or operations.

REGULATION IN THE UNITED STATES

Federal Regulation

The Federal Communications Commission ("FCC") regulates the interstate and international telecommunications facilities and services of telecommunications common carriers. Specifically, common carriers must comply with the requirements of the Communications Act of 1934, as amended by the Telecom Act. Implementation of the Telecom Act is subject to various federal and state rulemaking and judicial procedures; therefore, the effects of the Telecom Act on us cannot be accurately predicted.

We have obtained authority from the FCC to provide international telecommunications services as a non-dominant carrier on a facilities-based and resale basis. We also have obtained cable landing licenses that permit us to land and operate submarine cable systems in U.S. territory. Domestically, our subsidiaries provide local services as authorized CLECs in 34 states (including Washington D.C.). Other subsidiaries are certificated as ILECs in 13 states.

The scope of our activities in the United States makes us subject to varying, and sometimes conflicting, regulation. We are treated as non-dominant for our interstate and international operations. For local exchange services, some of our subsidiaries are treated as ILECs and others as CLECs. Generally speaking, the FCC imposes a greater degree of regulation on ILECs and other dominant providers and less regulation on CLECs

and other carriers without market power. The issues discussed below may have positive effects on certain of our subsidiaries and negative effects on other subsidiaries, and, thus, the net effect on us cannot be accurately predicted.

The intent of the Telecom Act is to increase competition in the U.S. telecommunications market. To achieve this goal, the Telecom Act seeks to open local access markets to competition by requiring ILECs to permit interconnection to their networks and imposing various other obligations on them.

Interconnection. In August 1996, the FCC released its First Report and Order on interconnection, which established rules for the implementation of the Telecom Act's obligations. In July 1997, the U.S. Circuit Court of Appeals for the Eighth Circuit vacated portions of the FCC's decision. On January 25, 1999, the United States Supreme Court reversed, and affirmed the FCC's authority to promulgate rules governing pricing, found that the FCC had authority to promulgate a "pick and choose" rule for interconnection, and upheld most of the FCC's rules governing access to unbundled network elements. The Court remanded to the FCC the issue of which network elements must be unbundled by ILECs. On remand, the FCC retained most of its original list of network elements to be unbundled, but eliminated the requirements that ILECs provide unbundled access to (i) local switching for customers with four or more lines in the most densely populated parts of the top 50 Metropolitan Statistical Areas, (ii) operator services, and (iii) directory assistance. The rules governing the pricing, terms, and conditions of interconnection agreements remain unsettled, and the scope of our interconnection rights and obligations, both as an ILEC and a CLEC, may change in ways that are not foreseeable.

Unbundling and Collocation. In March 1999, the FCC required ILECs to offer unbundled loops and collocation on more favorable terms than were available previously. The FCC order permits collocation of equipment that can be used to provide advanced data services, such as Digital Subscriber Line services, and requires ILECs to permit "cageless" collocation by CLECs. The FCC deferred action on its proposal to permit ILECs to offer advanced data services through separate affiliates and to free those affiliates from some of the obligations of the Telecom Act.

Universal Service. The Telecom Act required the FCC to restructure the manner in which universal service fund payments are established and distributed, and the FCC has significantly expanded the federal universal service subsidy regime to include low-income consumers. We are required to contribute to these programs based on our interstate and international revenue from end-user telecommunications services. Contribution rates change quarterly. Currently, the contribution rate is 5.877% of interstate and international end-user telecommunications revenue. We are unable to specify the amount of any universal service contributions that we will be required to make in future years.

Reciprocal Compensation. Under the Telecom Act, a local exchange carrier that terminates calls to customers on its network is entitled to be compensated by the local exchange carrier of the originating customer. Some ILECs have taken the position that compensation is not owed for inbound calls to Internet Service Providers ("ISPs") on the grounds that this type of traffic is not local and, thus, not covered by the terms of existing interconnection agreements. As a result, some ILECs have threatened to withhold, and in some cases have withheld, compensation to CLECs for such calls. The FCC has requested comments on the rules that it should adopt to govern compensation for ISP-bound traffic. Comments have been filed by interested parties and a decision is expected in the first quarter of 2000. We cannot accurately predict how the FCC will rule or what impact that rule may have on future interconnection negotiations.

As an ILEC in New York, we currently are required to pay significant reciprocal compensation payments for inbound calls to ISPs. The state public utility commissions ("PUCs") of Pennsylvania, Illinois, and Minnesota, states in which we also operate ILECs, also have concluded that reciprocal compensation is owed for ISP-bound calls. Any reciprocal compensation payments in those states are not material to our operations. We cannot predict whether the amounts of our reciprocal compensation payments in these or other states will change in the future.

Access Charges. Our costs to provide long distance services and our revenue from providing local services are affected by ongoing substantial changes in the "access charge" rates imposed by ILECs on long distance carriers for origination and termination of long distance calls over local facilities.

The increased pricing flexibility of "price cap ILECs" (i.e. ILECs subject to the FCC's access charge price cap rules), such as our Frontier ILEC subsidiaries, may have an adverse impact on our interstate access costs if not properly implemented by ILECs and enforced by the FCC, but could also make it easier for price cap ILECs to offer reduced access charge rates in markets subject to competition. The FCC is continuing to examine further access charge changes, including granting further pricing flexibility to price cap ILECs.

Tariffing and Filing Requirements. Non-dominant carriers must file tariffs with the FCC stating the rates, terms, and conditions of their interstate and international services. The FCC also imposes reporting and filing requirements on such carriers. We must file periodic reports regarding our interstate and international circuits and the deployment of network facilities. Traffic and revenue reports and universal service contribution worksheets also must be filed. Carriers also must obtain prior approval from or give notice to the FCC of certain transfers of control and assignments of operating authorizations, as well as certain affiliations with foreign carriers. In addition, certain operating and services agreements with dominant foreign carriers must be filed with the FCC.

Submarine Cables. In connection with the construction and operation of our submarine cable systems, we have obtained cable landing licenses for the AC-1, PC-1, MAC, PAC and SAC systems. These licenses give us authority to construct and land our submarine cables in the United States. In each case, the license permits the operation of the cable on a non-common carrier basis. Each of our cable landing licenses is valid for a period of 25 years from its grant. We are subject to various FCC reporting and filing requirements as the result of our holding of these cable landing licenses.

State Regulation

In addition to regulation by the FCC, the intrastate services of each of our local telephone service companies are regulated by the PUCs of the respective states in which each subsidiary operates with respect to such issues as prices, service quality, the issuance of securities, and the construction of facilities. To provide intrastate services, we generally must obtain a certificate of public convenience and necessity from the appropriate PUC and comply with state requirements for telecommunications utilities. The level of regulation imposed by state PUCs varies. Generally, however, ILECs are regulated more heavily than competitive providers. Our subsidiaries are certificated as ILECs in 13 states: New York, Alabama, Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, Ohio, Pennsylvania, and Wisconsin. Other subsidiaries provide competitive local services in 34 states (including Washington D.C.).

A number of states in which we have local or long distance operations are conducting proceedings related to the rules under which carriers may operate in an increasingly competitive environment. The issues that the PUCs are examining include unbundling of local network elements, local interconnection obligations, dialing parity for intra-LATA (or short-haul) toll traffic, local number portability, resale of local exchange service and universal service. We cannot predict how these proceedings will ultimately be resolved, nor when decisions will be issued.

Open Market Plan. Our Frontier subsidiary in Rochester, New York began its sixth year of operations under the Open Market Plan in January 2000. The Open Market Plan promotes telecommunications competition in the Rochester, New York marketplace by providing for (i) interconnection of competing local networks including reciprocal compensation for terminating traffic, (ii) equal access to network databases, (iii) access to local telephone numbers, (iv) service provider telephone number portability, and (v) certain wholesale discounts to resellers of local services.

During the operation of the Open Market Plan, we are regulated under pure price cap regulation rather than rate-of-return regulation. Planned rate reductions of \$21.0 million (the "Rate Stabilization Plan") are being implemented for Rochester area consumers, including \$18.0 million of reductions that occurred through 1999, and an additional \$1.5 million which commenced in January 2000. Rates charged for basic residential and business telephone service may not be increased during the seven-year period of the Plan. We are allowed to raise prices on certain enhanced products such as Caller ID and call forwarding.

On August 25, 1999, the New York State Public Service Commission ("NYSPSC") solicited comments regarding our Rochester local exchange subsidiary's financial condition, earnings and service quality, competition in the Rochester market, and the terms and conditions of the Open Market Plan. Settlement discussions in this NYSPSC proceeding have resulted in a Joint Proposal for Open Market Plan Continuation and Modification (the "Joint Proposal"), which is subject to NYSPSC review and approval. If approved, our Frontier ILEC subsidiary in New York will (i) remain under "price cap" regulation through 2002 (and possibly for an additional two years); (ii) be required to improve specified elements of service quality and to offer certain additional services; (iii) be subject to increased potential penalties related to service targets; and (iv) be required to lower certain residential and commercial service rates. The impact of the Joint Proposal, if adopted, will not have a material adverse effect on Global Crossing as a whole. The NYSPSC also has issued orders on other regulatory issues that affect our New York Frontier subsidiaries, related to service quality, staff allocations, provisions, and relations with other carriers.

Dividend Policy. The Open Market Plan prohibits the payment of dividends by Frontier Telephone of Rochester, Inc. ("FTR"), to Frontier Corporation ("FRO") if (i) FTR's senior debt is downgraded to "BBB" by Standard & Poor's ("S&P"), or the equivalent rating by other rating agencies, or is placed on credit watch for such a downgrade, or (ii) a service quality penalty is imposed under the Open Market Plan. Dividend payments to FRO also require FTR's directors to certify that such dividends will not impair FTR's service quality or its ability to finance its short and long-term capital needs on reasonable terms while maintaining an S&P debt rating target of "A".

In 1999, FTR achieved the required service levels, but a previously imposed temporary restriction on dividend payments from FTR to FRO will remain in place until the NYSPSC is satisfied that FTR's service levels demonstrate that FTR has rectified the service deficiency. In addition, on June 2, 1999, Moody's and S&P downgraded FTR's senior debt ratings from A1/AA- to Baa2/BBB, respectively. These ratings actions were a result of the announced merger between FRO and Global Crossing Ltd., and did not reflect any change in the financial condition or creditworthiness of FTR. These actions triggered an additional dividend restriction for FTR, which will be in effect until either the NYSPSC approves the payment of dividends or FTR's senior debt rating rises above BBB (for S&P) or the equivalent for other rating agencies. On December 22, 1999, S&P downgraded FTR's senior debt rating to BB+ and, on January 18, 2000, Duff & Phelps downgraded FTR's senior debt rating to A. Both rating agencies stated that their actions reflected their views that a large separation in ratings could not be maintained between an operating subsidiary and its parent. Accordingly, it remains uncertain when the restriction on payment of dividends from FTR to FRO will be lifted.

Local Regulation

Our activities also are subject to local regulation, including compliance with franchise obligations, building codes, and local licensing requirements. Such regulations vary widely by jurisdiction. To construct and install transmission facilities, we may need to obtain rights-of-way over public and privately owned land.

INTERNATIONAL REGULATION

Our construction and operation of telecommunications networks and our provision of telecommunications services in foreign countries require us to obtain a variety of permits, licenses, and authorizations in the ordinary course of business. In addition to telecommunications licenses and authorizations, we may be required to obtain environmental, construction, zoning and other permits, licenses, and authorizations. The construction and operation of our facilities and our provision of telecommunications services may subject us to regulation in other countries at the national, state, provincial, and local levels.

Europe

In connection with the construction and operation of the PEC network, we have obtained telecommunications licenses and authorizations in Belgium, France, Germany, Ireland, Italy, the Netherlands, Spain, Sweden, Switzerland and the United Kingdom. No telecommunications authorization is required for us to construct and operate facilities or provide services in Denmark. We expect to obtain additional telecommunications licenses and authorizations in Europe in the ordinary course of business.

Our activities in Europe are subject to regulation by the European Union and national regulatory authorities. The level of regulation and the regulatory obligations and rights that attach to us as a licensee in each country vary. In all countries, we, as a competitive entrant, are currently considered to lack significant market power ("SMP"), which generally subjects us to less regulation than providers that are deemed to possess SMP. As we complete construction of the PEC network and begin providing services in Europe, we anticipate that the regulatory obligations imposed on us will increase. In addition, we may be required to address many of the "local competition" issues that we face as a competitive provider in the United States, such as interconnection, collocation, unbundling, reciprocal compensation, and resale. The laws and regulations of the Member States of the EU on these issues vary. Various of the Member States have opened or concluded public consultations relating to these and other "local competition" issues. We cannot predict what decisions will be made by the EU and the Member States in these ongoing proceedings or the effects of any those decisions on our operations.

Asia

We are increasing the scope of our activities in Asia. In connection with the construction and operation of the GAL network in Japan, GAL has received a Japanese Type I telecommunications license. In addition, on February 18, 2000, our subsidiary, Global Crossing Japan, received a Special Type II license in Japan, which authorizes us to provide a variety of international telecommunications services in Japan. As a Japanese telecommunications licensee, we are subject to a range of regulatory requirements. In late 1999, the Japanese Ministry of Post and Communications (the "MPT") opened a public consultation on simplifying the telecommunications regulatory process. We have submitted comments in that proceeding. We cannot accurately predict whether or when a decision will be issued, whether the MPT will simplify the regulatory regime, or the potential effects of such an action.

On February 1, 2000, Asia Global Crossing Hong Kong Ltd. ("AGC-HK") was advised by a Letter of Intent from the Hong Kong telecommunications regulator that, upon the satisfaction of certain conditions, AGC-HK will be issued an External Fixed Telecommunications Network Services ("EFTNS") license to land the EAC cable and to provide international telecommunications facilities and services in Hong Kong. Our Hutchison Global Crossing ("HGC") joint venture is authorized to construct and operate local and international fixed-line telecommunications networks and to provide domestic and international telecommunications services in Hong Kong. As a result of the HGC venture and our EFTNS license, we are subject to regulatory oversight and supervision in Hong Kong.

The status of liberalization of the telecommunications regulatory regimes of the Asian countries in which we intend to operate varies. Some countries allow full competition in the telecommunications sector, while others limit competition for most services. Most of the countries in the region have committed to liberalizing their telecommunications regimes and opening their telecommunications markets to foreign investment as part of the World Trade Organization ("WTO") Agreement on Telecommunications. China also has committed to liberalizing its telecommunications markets and reducing foreign ownership limitations if it is admitted to the WTO. We cannot be certain whether this liberalizing trend will continue or accurately predict the pace and scope of liberalization. It is possible that one or more of the countries in which we operate will slow or halt the liberalization of its telecommunications markets. The effect of such an action on us cannot be accurately predicted.

Latin America

In Latin America, we currently are constructing the MAC, PAC and SAC systems. In connection with the construction of these cable systems, we have obtained cable landing licenses and/or telecommunications licenses in Argentina, Panama, and the United States. Applications have been filed in Mexico, Venezuela and Brazil and we expect to file applications in additional Latin American countries in the ordinary course of business.

As in Asia, the status of liberalization of the telecommunications markets of Latin America varies. All of the countries in which we currently plan to have operations are members of the WTO and have committed to liberalizing their telecommunications markets and lifting foreign ownership restrictions. Some countries now permit competition for all telecommunications facilities and services, while others allow competition for some facilities and services, but restrict competition for other services. Some countries in which we operate or intend to operate currently impose limits on foreign ownership of telecommunications carriers. We anticipate that we will be granted authority to land and operate our submarine cable systems in each of the countries in which they currently are expected to land. It is possible, however, that one or more of these countries will not grant authority to land a submarine cable or will impose conditions that make landing and operating the cable commercially unfeasible.

The telecommunications regulatory regimes of many Latin American countries are in the process of development. Many issues, such as regulation of incumbent providers, interconnection, unbundling of local loops, resale of telecommunications services, and pricing have not been addressed fully or at all. We cannot accurately predict whether or how these issues will be resolved and their impact on our operations in Latin America.

Employees

As of December 31, 1999, we had approximately 12,400 employees. We consider our relations with our employees to be good.

Forward Looking Statements and Risk Factors

We have included in this Annual Report on Form 10-K forward-looking statements that state our own or our management's intentions, beliefs, expectations or predictions for the future. Forward-looking statements are subject to a number of risks, assumptions and uncertainties which could cause our actual results to differ materially from those projected in the forward-looking statements. The discussions set forth below constitute cautionary statements identifying important factors with respect to such forward-looking statements, including risks and uncertainties, that could cause actual results to differ materially from results referred to in the forward-looking statements. There can be no assurance that our expectations regarding any of these matters will be fulfilled.

We cannot assure you of the successful integration of newly acquired businesses. We cannot assure you that the expected benefits will be achieved.

Part of our growth strategy is to make selective strategic acquisitions of businesses operated by others. Achieving the benefits of these acquisitions will depend in part on the integration of those businesses with our business in an efficient manner. We cannot assure you that this will happen or that it will happen in a timely manner. The consolidation of operations following these acquisitions will often require substantial attention from management. The diversion of management attention and any difficulties encountered in the transition and integration process could have a material adverse effect on the revenue, levels of expenses and operating results of the combined company. We cannot assure you that the combined company will realize any of the anticipated benefits of any acquisition.

It may be difficult to evaluate our business because we have a limited operating history.

We were organized in March 1997 and, with the exception of our Frontier, Global Marine Systems and Racal Telecom subsidiaries, have a limited operating history. Because of this limited history and our rapid growth through successive acquisitions, it may be difficult for potential investors to evaluate the performance of our operations. In particular, comparisons of our results of operations from one period to another may not be fully indicative of our current ability to conduct our business.

We may encounter difficulties in completing our cable systems currently under development.

Our ability to achieve our strategic objectives will depend in large part upon the successful, timely and cost-effective completion of our cable systems currently under development, as well as on achieving substantial capacity sales on these systems once they become operational and on our other operational systems. The construction of these systems will be affected by a variety of factors, uncertainties and contingencies, many of which are beyond our control, including:

- . our ability to manage their construction effectively;
- . our ability to obtain all construction and operating permits and licenses;
- . third-party contractors performing their obligations on schedule; and
- . our ability to enter into favorable construction contracts with a limited number of suppliers.

These factors may significantly delay or prevent completion of one or more of our systems currently under development, which could have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that each of these systems will be completed at the cost and in the time frame currently estimated by us, or even at all. Although we award contracts for construction of our systems to suppliers who in most cases are expected to be bound by a fixed-price construction cost schedule and to provide guarantees in respect of completion dates and system design specifications, we cannot assure you that the actual construction costs or the time required to complete these systems will not exceed our current estimates. These circumstances could have a material adverse effect on our business, financial condition and results of operations.

Our revenue growth plan depends on product and service expansion.

We intend to grow revenue and profits by:

- . introducing new services and products;
- . developing or acquiring additional cable systems; and
- . upgrading capacity on our planned systems.

Our inability to effect these expansions of our products and services could have a material adverse effect on our business, financial condition and results of operations.

We face competition which may reduce demand for our products and services.

The international telecommunications industry is highly competitive. We compete primarily on the basis of price, availability, service quality and reliability, customer service and the location of our systems and services. The ability of our competitors to provide comparable products and services at similar prices could have a material adverse effect on demand for our products and services. In addition, much of our planned growth is predicated upon the growth in demand for international telecommunications capacity and services. We cannot assure you that this anticipated demand growth will occur.

We are growing rapidly in a changing industry.

Our strategy is to be the premier provider of global broadband telecommunication services for both wholesale and retail customers. As a result of this aggressive strategy, we are experiencing rapid expansion and expect it to continue for the foreseeable future. This growth has increased our operating complexity. At the same time, the international telecommunications industry is changing rapidly due to, among other things:

- . the easing of regulatory constraints;
- . the privatization of established carriers;
- . the expansion of telecommunications infrastructure;
- . the growth in demand for bandwidth caused by expansion of Internet and data transmissions;
- . the globalization of the world's economies; and
- . the changing technology for wired, wireless and satellite communication.

We cannot assure you that we will succeed in adapting to the rapid changes in the international telecommunications industry.

We may have difficulty in obtaining the additional financing required to develop our business.

In order to further implement our aggressive growth strategy, we anticipate that we will require substantial additional equity and debt financing. Under our business plan, we and our affiliates expect to require significant financing by the end of 2000 to build out the Global Crossing Network and provide additional services to our customers. Obtaining additional financing will be subject to a number of factors, including, without limitation, the following:

- . the state of operations of our company;
- . our actual or anticipated results of operations, financial condition and cash flows;
- . investor sentiment towards companies with substantial international operations; and
- . generally prevailing market conditions.

If additional funds are raised through the issuance of equity securities, the percentage ownership of our then current shareholders will be reduced, and the new equity securities may have rights, preferences or privileges senior to those of the holders of our common stock. If additional funds are raised through the issuance of debt securities, these securities would have some rights, preferences and privileges senior to those of the holders of our common stock, and the terms of this debt could impose restrictions on our operations and result in significant interest expense to us. In the event that we are unable to raise sufficient financing on satisfactory terms and conditions in the future, our company would be adversely affected.

We face price declines that could adversely affect our business.

Advances in fiber optic technology have resulted in significant per circuit price declines in the fiber optic cable transmission industry. Recent changes in technology caused prices for telecommunications capacity and services to go down even further. If there is less demand than we project or a bigger drop in prices than we project, there could be a material adverse effect on our business, financial condition and results of operations. We cannot assure you, even if our projections with respect to those factors are realized, that we will be able to implement our strategy or that our strategy will be successful in the rapidly evolving telecommunications market.

We confront several system risks that could affect our operations.

Each of our systems is and will be subject to the risks inherent in a large-scale, complex fiber optic telecommunications system: The operation, administration, maintenance and repair of our systems requires the coordination and integration of sophisticated and highly specialized hardware and software technologies and equipment located throughout the world. We cannot assure you that our systems will continue to function as expected in a cost-effective manner. The failure of the hardware or software to function as required could render a cable system unable to perform at design specifications.

Each of our undersea systems either has or is expected to have a design life of generally 25 years, while each of our terrestrial systems either has or is expected to have a design life of at least 20 years. The economic lives of these systems, however, are expected to be shorter than their design lives, and we cannot assure you of the actual useful life of any of these systems. A number of factors will ultimately affect the useful life of each of our systems, including, among other things:

- . quality of construction;
- . unexpected damage or deterioration; and
- . technological or economic obsolescence.

Failure of any of our systems to operate for its full design life could have a material adverse effect on our business, financial condition and results of operations.

Our success depends on our ability to maintain, hire and successfully integrate key personnel.

Our future success depends on the skills, experience and efforts of our officers and key technical and sales employees. In particular, our senior management has significant experience in the telecommunications and Internet industries, and the loss of any of them could negatively affect our ability to execute our business strategy. In addition, we cannot assure you that we will be able to integrate new management into our existing operations. Competition for these individuals is intense, and we may not be able to attract, motivate and retain highly skilled qualified personnel. We do not have "key person" life insurance policies covering any of our employees.

We face risks associated with international operations.

Because we will derive substantial revenue from international operations and intend to have substantial physical assets in several jurisdictions along our routes, our business is subject to risks inherent in international operations, including:

- . political and economic conditions;
- . unexpected changes in regulatory environments;
- . exposure to different legal standards; and
- . difficulties in staffing and managing operations.

We have not experienced any material adverse effects with respect to our foreign operations arising from these factors. However, problems associated with these risks could arise in the future. Finally, managing operations in multiple jurisdictions may place further strain on our ability to manage our overall growth.

Because many of our customers deal predominantly in foreign currencies, we may be exposed to exchange rate risks and our net income may suffer due to currency translations.

We primarily invoice for our services in U.S. dollars; however, most of our customers and many of our prospective customers derive their revenue in currencies other than U.S. dollars. The obligations of customers with substantial revenue in foreign currencies may be subject to unpredictable and indeterminate increases in the event that such currencies devalue relative to the U.S. dollar. Furthermore, such customers may become subject to exchange control regulations restricting the conversion of their revenue currencies into U.S. dollars. In such event, the affected customers may not be able to pay us in U.S. dollars. In addition, where we invoice for our services in currencies other than U.S. dollars, our net income may suffer due to currency translations in the event that such currencies devalue relative to the U.S. dollar and we do not elect to enter into currency hedging arrangements in respect of those payment obligations.

Our operations are subject to regulation in the United States and abroad and require us to obtain and maintain a number of governmental licenses and permits. If we fail to comply with those regulatory requirements or obtain and maintain those licenses and permits, we may not be able to conduct our business.

In the United States, our intrastate, interstate, and international telecommunications networks and services are subject to regulation at the federal, state, and local levels. We also have facilities and provide services in numerous countries in Europe, Latin America, and Asia. Our operations in those countries are subject to regulation at the national level and, in some cases, at the state, provincial, and local levels.

- . Our interstate and international operations in the United States are governed by the Communications Act of 1934, as amended by the Telecom Act. There are several ongoing proceedings at the FCC and in the federal courts regarding the implementation of various aspects of the Telecom Act. The outcomes of these proceedings may affect the manner in which we are permitted to provide our services in the United States and may have a material adverse effect on our operations.
- . The intrastate activities of our local telephone service companies are regulated by the states in which they do business. A number of states in which we operate are conducting proceedings related to the provision of services in a competitive telecommunications environment. These proceedings may affect the manner in which we are permitted to provide our services in one or more states and may have a material adverse effect on our operations.
- . Our operations outside the United States are governed by the laws of the countries in which we operate. The regulation of telecommunications networks and services outside the United States varies widely. In some countries, the range of services that we are legally permitted to provide may be limited. In other countries, existing telecommunications legislation is in the process of development, is unclear or inconsistent, or is applied in an unequal or discriminatory fashion. Our inability or failure to comply with the telecommunications laws and regulations of one or more of the countries in which we operate could result in the temporary or permanent suspension of operations in one or more countries. We also may be prohibited from entering certain countries at all or from providing all of our services in one or more countries. In addition, many of the countries in which we operate are conducting proceedings that will affect the implementation of their telecommunications legislation. We cannot be certain of the outcome of these proceedings. These proceedings may affect the manner in which we are permitted to provide our services in these countries and may have a material adverse effect on our operations.
- . In the ordinary course of constructing our networks and providing our services we are required to obtain and maintain a variety of telecommunications and other licenses and authorizations in the countries in which we operate. We also must comply with a variety of regulatory obligations. Our failure to obtain or maintain necessary licenses and authorizations, or to comply with the obligations imposed upon license-holders in one or more countries, may result in sanctions, including the revocation of authority to provide services in one or more countries.

We depend on third parties for many functions. If the services of those third parties are not available to us, we may not be able to conduct our business.

We depend and will continue to depend upon third parties to:

- . construct some of our systems and provide equipment and maintenance;
- . provide access to a number of origination and termination points of our systems in various jurisdictions;
- . construct and operate landing stations in a number of those jurisdictions;
- . acquire rights of way;
- . provide terrestrial capacity to our customers through contractual arrangements; and
- . act as joint venture participants with regard to some of our current and potential future systems.

We cannot assure you that third parties will perform their contractual obligations or that they will not be subject to political or economic events which may have a material adverse effect on our business, financial condition and results of operations. If they fail to perform their obligations, we may not be able to conduct our business. If any of our joint venture participants experiences a change in strategic direction such that their strategy regarding our mutual joint venture diverges from our own, we may not be able to realize the benefits anticipated to be derived from the joint venture.

We have substantial leverage which may limit our ability to comply with the terms of our indebtedness and may restrict our ability to operate.

Our significant indebtedness could adversely affect us by leaving us with insufficient cash to fund operations and impairing our ability to obtain additional financing. The amount of our debt could have important consequences for our future, including, among other things:

- . cash from operations may be insufficient to meet the principal and interest on our indebtedness as it becomes due;
- . payments of principal and interest on borrowings may leave us with insufficient cash resources for our operations; and
- . restrictive debt covenants may impair our ability to obtain additional financing.

We have incurred a high level of debt. As of December 31, 1999, we and our consolidated subsidiaries had a total of \$8,051 million of total liabilities, including approximately \$5,056 million in senior indebtedness, of which \$1,295 million was secured. As of such date, Global Crossing Ltd. additionally had outstanding cumulative convertible preferred stock with a face value of \$1,650 million. Our subsidiary, Global Crossing Holdings, also has mandatorily redeemable preferred stock outstanding with a face value of \$500 million. In addition, our Pacific Crossing joint venture entered into an \$850 million non-recourse credit facility, under which it had incurred \$750 million of indebtedness as of December 31, 1999.

Our ability to repay our debt depends upon a number of factors, many of which are beyond our control. In addition, we rely on dividends, loan repayments and other intercompany cash flows from our subsidiaries to repay our obligations. Our operating subsidiaries have entered into a senior secured corporate credit facility. Accordingly, the payment of dividends from these operating subsidiaries and the making and repayments of loans and advances are subject to statutory, contractual and other restrictions.

In addition, if we are unable to generate sufficient cash flow to meet our debt service requirements, we may have to renegotiate the terms of our long-term debt. We cannot assure you that we would be able to renegotiate successfully those terms or refinance our indebtedness when required or that satisfactory terms of any refinancing would be available. If we were not able to refinance our indebtedness or obtain new financing under these circumstances, we would have to consider other options, such as:

- . sales of some assets;
- . sales of equity;
- . negotiations with our lenders to restructure applicable indebtedness; or
- . other options available to us under applicable law.

Our principal shareholders may be able to influence materially the outcome of shareholder votes.

As of March 3, 2000, Pacific Capital Group had an 11.98% beneficial ownership interest in us. We have entered into various transactions with Pacific Capital Group and its affiliates and assumed the on-going development of some of our systems from an affiliate of Pacific Capital Group. Mr. Gary Winnick, chairman of our board of directors, controls Pacific Capital Group and its subsidiaries. In addition, several of our other officers and directors are affiliated with Pacific Capital Group. Furthermore, as of March 3, 2000, Canadian Imperial

Bank of Commerce had a 9.69% beneficial ownership interest in us. Canadian Imperial Bank of Commerce and its affiliates have acted as underwriter, lender or initial purchaser in several of our financial transactions in connection with the development and construction of our systems. Several members of our board of directors are employees of an affiliate of Canadian Imperial Bank of Commerce.

As of March 3, 2000, Pacific Capital Group and Canadian Imperial Bank of Commerce collectively beneficially owned 21.67% of the outstanding shares of our common stock. Accordingly, Pacific Capital Group and Canadian Imperial Bank of Commerce may be able to influence materially the outcome of matters submitted to a vote of our shareholders, including the election of directors.

Officers and directors own a substantial portion of us and may have conflicts of interest.

Our executive officers and directors have substantial equity interests in us. As of March 3, 2000, all our directors and executive officers as a group collectively beneficially owned 24.72% of our outstanding common stock, including shares beneficially owned by Pacific Capital Group and certain shares beneficially owned by Canadian Imperial Bank of Commerce. Some of these individuals have also received amounts from us due to advisory services fees paid to Pacific Capital Group and its affiliates.

Some of our directors and executive officers also serve as officers and directors of other companies. Additionally, some of our officers and directors are active investors in the telecommunications industry. Service as one of our directors or officers and as a director or officer of another company could create conflicts of interest when the director or officer is faced with decisions that could have different implications for us and the other company. A conflict of interest could also exist with respect to allocation of time and attention of persons who are our directors or officers and directors and officers of another company. The pursuit of these other business interests could distract these officers from pursuing opportunities on our behalf. These conflicts of interest could have a material adverse effect on our business, financial condition and results of operations.

We cannot predict our future tax liabilities.

We believe that a significant portion of the income derived from our undersea systems will not be subject to tax by any of (1) Bermuda, which currently does not have a corporate income tax, or (2) some other countries in which we conduct activities or in which our customers are located. However, we base this belief upon:

- . the anticipated nature and conduct of our business, which may change; and
- . our understanding of our position under the tax laws of the various countries in which we have assets or conduct activities, which position is subject to review and possible challenge by taxing authorities and to possible changes in law, which may have retroactive effect.

We cannot predict the amount of tax to which we may become subject and cannot be certain that any of these factors would not have a material adverse effect on our business, financial condition and results of operations.

Our shareholders may be subject to Foreign Personal Holding Company, Passive Foreign Investment Company, Controlled Foreign Corporation and Personal Holding Company rules.

We believe that neither we nor any of our non-United States subsidiaries are a foreign personal holding company and do not expect that either we or any of our affiliates will become a foreign personal holding company. However, we cannot assure you in this regard. If one of our shareholders is a United States person and we or one of our non-United States subsidiaries are classified as a foreign personal holding company, then that shareholder would be required to pay tax on its pro rata share of our or our relevant non-United States subsidiary's undistributed foreign personal holding income. We intend to manage our affairs so as to attempt to avoid or minimize having income imputed to United States persons under these rules, to the extent this management of our affairs would be consistent with our business goals, although we cannot assure you in this regard.

We believe that we are not a passive foreign investment company and do not expect to become a passive foreign investment company in the future. However, we cannot assure you in this regard. In addition, our expectations are based, in part, on interpretations of existing law that we believe are reasonable, but which have not been approved by any taxing authority. If we were a passive foreign investment company, then any of our shareholders that is a United States person could be liable to pay tax at the then prevailing rates on ordinary income plus an interest charge upon some distributions by us or when that shareholder sold our capital stock at a gain.

Furthermore, additional tax considerations would apply if we or any of our affiliates were a controlled foreign corporation or a personal holding company.

ITEM 2. PROPERTIES

Our principal offices are located in leased premises in Hamilton, Bermuda, with corporate offices under lease in Beverly Hills, California; Morristown, New Jersey; and Rochester, New York. We also own or lease sales, administrative and support offices worldwide. In addition, our telecommunication services segment owns undersea cables crossing the Atlantic Ocean (AC-1 and AC-2); Pacific Ocean (58% economic interest in PC-1); Eastern United States and Caribbean (MAC); South America (SAC); eastern Asia (EAC); and Western United States, Mexico, Central & South America and Caribbean (PAC); and primarily terrestrial cable systems connecting various cities within the United States (NAC), Europe (PEC), Japan (GAL) and Hong Kong (HGC). Our telecommunications services segment also owns or leases numerous cable landing stations throughout the world related to these undersea and terrestrial cable systems. GlobalCenter media distribution centers incorporate web hosting infrastructure and are connected to the Company's international fiber optic network. Media distribution centers are currently operational in leased premises in Sunnyvale and Anaheim, California; London, England; South Melbourne, Australia; Herndon, Virginia; and New York, New York.

Our installation and maintenance services segment owns, leases and operates a fleet of vessels and submersible/remotely operated vehicles used in the planning, installation and maintenance of undersea fiber optic cable systems.

Our ILEC services segment owns telephone properties which include: connecting lines between customers' premises and the central offices; central office switching equipment; buildings and land; and customer premise equipment. The connecting lines, including aerial and underground cable, conduit, poles, wires and microwave equipment, are located on public streets and highways or on privately owned land. We have permission to use these lands pursuant to local governmental consent or lease, permit, franchise, easement or other agreement.

We believe that substantially all of our existing properties are in good condition and are suitable for the conduct of our business. A security interest in some of these properties, in particular some of our undersea cables, has been granted to lenders providing financing for those systems under non-recourse facilities or to Global Crossing generally under our corporate credit facility.

ITEM 3. LEGAL PROCEEDINGS

On June 25, 1999, Frontier Corporation, a wholly-owned subsidiary of Global Crossing Ltd., was served with a summons and complaint in a lawsuit commenced in the New York State Supreme Court, Monroe County by a Frontier shareholder alleging that Frontier and its Board of Directors had breached their fiduciary duties to shareholders by endorsing a definitive merger agreement with the Company without having adequately considered an alternative merger proposal made by Qwest Communications International, Inc. The lawsuit was framed as a purported class action brought on behalf of all shareholders of Frontier and sought unstated compensatory damages and injunctive relief compelling Frontier's board to evaluate Frontier's suitability as a merger partner, to enhance Frontier's value as a merger candidate, to engage in discussions with Qwest about possible business combinations, to act independently to protect the interests of Frontier shareholders, and to ensure that no conflicts of interest exist which would prevent maximizing value to shareholders. In July 1999,

three additional lawsuits were commenced against Frontier in the New York State Supreme Court on behalf of a number of individual shareholders seeking essentially identical relief. All four lawsuits were consolidated into a single proceeding pending in Rochester, New York. In February 2000, all four lawsuits were voluntarily withdrawn.

On July 12, 1999 Frontier was served with a summons and complaint in a lawsuit commenced in New York State Supreme Court, New York County by a Frontier shareholder alleging that Frontier and its board breached their fiduciary duties by failing to obtain the highest possible acquisition price for Frontier in the definitive merger agreement with Global Crossing. The action has been framed as a purported class action and seeks compensatory damages and injunctive relief. The claims against Frontier were originally asserted in the same action as similar but separate claims against US WEST, Inc. However, the claims against Frontier have been severed from the US WEST claims. Global Crossing believes the asserted claims are without merit and is defending itself vigorously.

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

Not applicable.