

PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q/A
October 15, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended June 30, 2004

OR

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

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
1700 Old Meadow Road, Suite 300,
McLean, VA
(Address of principal executive offices)

54-1708481
(I.R.S. Employer Identification No.)

22102
(Zip Code)

(703) 902-2800

(Registrant's telephone number, including area code)

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

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

Class	Outstanding as of September 30, 2004
Common Stock \$.01 par value	89,863,126

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

EXPLANATORY NOTE

Primus Telecommunications Group, Incorporated and subsidiaries (the Company) is filing this Amendment to Form 10-Q to:

1. Amend the information contained in Note 10 to the consolidated condensed financial statements included in Part I, Item 1 of the Company's Form 10-Q for the quarterly period ended June 30, 2004 as originally filed with the Securities and Exchange Commission on August 9, 2004 (the Quarterly Report). Note 10 is hereby restated to reflect the capital contribution of certain of the Company's intercompany receivables and payables balances to the Company's wholly owned subsidiary, Primus Telecommunications Holding, Inc. (PTHI), which occurred in connection with PTHI's issuance of 8% senior notes, which are guaranteed by the Company, in January 2004. This amendment is solely due to intercompany arrangements required for disclosure in Note 10.

Concurrently, the Company is filing its amended quarterly report on Form 10-Q/A for the quarter ended March 31, 2004 to reflect the amended capital contribution.

2. Amend basic weighted average common shares outstanding and basic and diluted income per common share accordingly, disclosed in the consolidated condensed financial statements included in Part I, Item 1 of the Quarterly Report. The three- and six-month periods ended June 30, 2003, as presented on the statement of operations and in the notes to the consolidated condensed financial statements, is hereby restated to reflect the removal of the Series C convertible preferred stock from the basic weighted average common shares outstanding as it does not meet the definition of a participating security. Because the Series C Preferred was deemed to be non-participating, the shares are assumed to be converted into common shares and the accreted and deemed dividend on convertible preferred stock is removed from the calculation of diluted income per common share. Basic and diluted income per common share was restated accordingly. There is no impact on previously reported net income for the three- and six-month periods ended June 30, 2003 nor on the statement of operations for the three- and six-month periods ended June 30, 2004.

Concurrently, the Company is filing its amended quarterly report on Form 10-Q/A for the quarters ended September 30, 2003 and March 31, 2004 and its amended annual report Form 10-K/A for the year ended December 31, 2003 to reflect the amended basic weighted average common shares outstanding and the calculation of basic and diluted income per common share for the periods during which the Series C convertible preferred stock was outstanding.

This Amendment reflects only the changes discussed above. No other information included in the Quarterly Report has been modified or updated. This Amendment continues to speak as of the date of the original filing of the Quarterly Report, and the Company has not updated the disclosures to reflect any events that occurred at a later date.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
INDEX TO FORM 10-Q/A

	Page No.
<u>Part I. FINANCIAL INFORMATION</u>	
<u>Item 1. FINANCIAL STATEMENTS (UNAUDITED)</u>	
<u>Consolidated Condensed Statements of Operations (As Restated)</u>	1
<u>Consolidated Condensed Balance Sheets</u>	2
<u>Consolidated Condensed Statements of Cash Flows</u>	3
<u>Consolidated Condensed Statements of Comprehensive Income (Loss)</u>	4
<u>Notes to Consolidated Condensed Financial Statements</u>	5
<u>Item 4. CONTROLS AND PROCEDURES</u>	28
<u>Part II. OTHER INFORMATION</u>	
<u>Item 6. EXHIBITS AND REPORTS ON FORM 8-K</u>	28
<u>SIGNATURES</u>	29

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003*	2004	2003*
NET REVENUE	\$ 331,615	\$ 320,240	\$ 679,638	\$ 620,683
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	199,035	196,363	408,692	386,386
Selling, general and administrative	95,407	89,241	189,724	166,866
Depreciation and amortization	23,140	21,218	46,647	41,553
Loss on sale of fixed assets	1,873	804	1,873	804
Asset impairment write-down				537
Total operating expenses	319,455	307,626	646,936	596,146
INCOME FROM OPERATIONS	12,160	12,614	32,702	24,537
INTEREST EXPENSE	(11,579)	(14,622)	(26,658)	(29,999)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OF DEBT	297	7,981	(13,896)	14,634
INTEREST INCOME AND OTHER INCOME (EXPENSE)	552	(82)	1,288	200
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(14,665)	14,765	(15,797)	24,818
INCOME (LOSS) BEFORE INCOME TAXES	(13,235)	20,656	(22,361)	34,190
INCOME TAX EXPENSE	(1,651)	(620)	(2,580)	(2,953)
NET INCOME (LOSS)	(14,886)	20,036	(24,941)	31,237
ACCREDITED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK		(1,356)		(1,678)
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (14,886)	\$ 18,680	\$ (24,941)	\$ 29,559
INCOME (LOSS) PER COMMON SHARE:				
Basic	\$ (0.17)	\$ 0.29	* \$ (0.28)	\$ 0.45 *
Diluted	\$ (0.17)	\$ 0.22	* \$ (0.28)	\$ 0.36 *
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	89,611	65,157	* 89,190	65,120 *
Diluted	89,611	90,744	89,190	87,572

* As restated, see Note 9.

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands, except share amounts)
(unaudited)

	June 30, 2004	December 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 66,349	\$ 64,066
Accounts receivable (net of allowance for doubtful accounts receivable of \$17,671 and \$20,975)	176,897	200,817
Prepaid expenses and other current assets	44,450	36,930
Total current assets	287,696	301,813
RESTRICTED CASH	12,012	12,463
PROPERTY AND EQUIPMENT Net	314,688	341,167
GOODWILL	77,160	59,895
OTHER INTANGIBLE ASSETS Net	28,973	22,711
OTHER ASSETS	17,793	13,115
TOTAL ASSETS	\$ 738,322	\$ 751,164
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 96,303	\$ 108,615
Accrued interconnection costs	76,203	89,993
Accrued expenses and other current liabilities	70,198	69,456
Accrued income taxes	21,733	22,387
Accrued interest	14,376	12,852
Current portion of long-term obligations	21,347	24,385
Total current liabilities	300,160	327,688
LONG-TERM OBLIGATIONS	560,366	518,066
OTHER LIABILITIES	1,420	1,776
Total liabilities	861,946	847,530
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS DEFICIT:		
Preferred stock, Series A and B, \$0.01 par value 1,895,050 shares authorized; none issued and outstanding; Series C, \$0.01 par value 559,950 shares authorized; none issued and outstanding		
Common stock, \$0.01 par value 150,000,000 shares authorized; 89,776,219 and 88,472,546 shares issued and outstanding	898	885
Additional paid-in capital	658,248	651,159
Accumulated deficit	(710,018)	(685,077)
Accumulated other comprehensive loss	(72,752)	(63,333)
Total stockholders deficit	(123,624)	(96,366)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 738,322	\$ 751,164

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended	
	June 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (24,941)	\$ 31,237
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for doubtful accounts receivable	7,483	12,210
Stock issuance 401(k) Plan and Restricted Stock Plan		258
Non-cash compensation expense		245
Depreciation, amortization and accretion	46,647	41,586
Loss on sale of fixed assets	1,873	804
Asset impairment write-down		537
Equity investment loss	34	649
(Gain) loss on early extinguishment of debt	13,896	(14,634)
Minority interest share of loss	(234)	(210)
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	14,470	(26,488)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	10,178	(18,280)
(Increase) decrease in prepaid expenses and other current assets	(6,912)	7,429
(Increase) decrease in restricted cash	(199)	891
(Increase) decrease in other assets	(929)	534
Increase (decrease) in accounts payable	(10,705)	2,094
Increase (decrease) in accrued expenses, accrued income taxes, other current liabilities and other liabilities	(18,384)	2,688
Increase (decrease) in accrued interest	1,549	(2,396)
Net cash provided by operating activities	33,826	39,154
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(17,455)	(9,677)
Cash used for business acquisitions, net of cash acquired	(26,450)	(1,129)
Net cash used in investing activities	(43,905)	(10,806)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations, net	235,240	9,125
Purchase of the Company's debt securities	(197,312)	(42,549)
Principal payments on capital leases, vendor financing and other long-term obligations	(19,611)	(31,503)
Proceeds from sale of convertible preferred stock, net		8,895
Proceeds from sale of common stock	1,029	231
Net cash provided by (used in) financing activities	19,346	(55,801)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(6,984)	737
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,283	(26,716)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	64,066	92,492
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 66,349	\$ 65,776
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 24,089	\$ 31,367
Cash paid for taxes	\$ 907	\$
Non-cash investing and financing activities:		
Leased fiber capacity additions	\$ 3,879	\$ 2,938
Common stock issued for business acquisitions	\$ 6,072	\$
Acquisition of customer list, financed by long-term obligations	\$	\$ 8,102

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
NET INCOME (LOSS)	\$ (14,886)	\$ 20,036	\$ (24,941)	\$ 31,237
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustment	(10,101)	691	(9,419)	(422)
COMPREHENSIVE INCOME (LOSS)	\$ (24,987)	\$ 20,727	\$ (34,360)	\$ 30,815

See notes to consolidated condensed financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission (SEC) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The financial statements should be read in conjunction with the Company s audited consolidated financial statements included in the Company s most recently filed Form 10-K/A.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated condensed financial statements include the Company s accounts, its wholly-owned subsidiaries and all other subsidiaries over which the Company exerts control. The Company owns 51% of the common stock of Matrix Internet, S.A. (Matrix) and 51% of CS Communications Systems GmbH and CS Network GmbH (Citrus), in all of which the Company has a controlling interest. Additionally, the Company has a controlling interest in Direct Internet Limited (DIL), pursuant to a convertible loan which can be converted at any time into equity of DIL in an amount as agreed upon between the Company and DIL and permitted under local law. The Company uses the equity method of accounting for its investment in Bekkoame Internet, Inc. (Bekko). All intercompany profits, transactions and balances have been eliminated in consolidation. All other investments in affiliates are carried at cost, as the Company does not have significant influence.

Stock-Based Compensation At June 30, 2004, the Company had three stock-based employee compensation plans. The Company uses the intrinsic value method to account for those plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. The following table illustrates the effect on income (loss) attributable to common stockholders and income (loss) per common share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation (in thousands, except per share amounts, and unaudited):

	For the three months ended June 30, 2004		For the six months ended June 30, 2004	
	2004	2003	2004	2003
Income (loss) attributable to common stockholders, as reported	\$ (14,886)	\$ 18,680	\$ (24,941)	\$ 29,559
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of income taxes	(490)	(753)	(892)	(1,471)
Pro forma income (loss) attributable to common stockholders	\$ (15,376)	\$ 17,927	\$ (25,833)	\$ 28,088
Basic income (loss) per common share:				
As reported	\$ (0.17)	\$ 0.29	\$ (0.28)	\$ 0.45
Pro forma	\$ (0.17)	\$ 0.28	\$ (0.29)	\$ 0.43
Diluted income (loss) per common share:				
As reported	\$ (0.17)	\$ 0.22	\$ (0.28)	\$ 0.36
Pro forma	\$ (0.17)	\$ 0.21	\$ (0.29)	\$ 0.34
Weighted average common shares outstanding:				
Basic	89,611	65,157	89,190	65,120
Diluted	89,611	90,744	89,190	87,572

Reclassification Certain prior year amounts have been reclassified to conform to current year presentations.

Recent Accounting Pronouncements

In March 2004, the Financial Accounting Standards Board (FASB) approved Emerging Issues Task Force (EITF) Issue 03-6, *Participating Securities and the Two-Class Method* under SFAS 128. EITF Issue 03-6 supersedes the guidance in Topic No. D-95, *Effect of Participating Convertible Securities on the Computation of Basic Earnings per Share*, and requires the use of the two-class method of participating securities. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared or accumulated and participation rights in undistributed earnings. EITF Issue 03-6 is effective for reporting periods beginning after March 31, 2004 and should be applied by restating previously reported earnings per share. As discussed in Note 9 *Basic and Diluted Income (Loss) Per Common Share*, the adoption of EITF Issue 03-6 did not have an effect on the Company's consolidated financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation (FIN) No. 46(R), *Consolidation of Variable Interest Entities*. FIN No. 46(R) clarifies the application of Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the

entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46(R) applies immediately to variable interest entities created after January 31, 2003, or in which the Company obtains an interest after that date. With respect to variable interest entities created prior to February 1, 2003, FIN No. 46(R) was effective March 31, 2004. The adoption of FIN No. 46(R) did not have a material effect on the Company's consolidated financial position or results of operations.

3. ACQUISITIONS

In June 2004, the Company's wholly-owned subsidiary, 3082833 Nova Scotia Company (Primus Canada) acquired Onramp Network Services Inc. (Onramp), a provider of Internet services and solutions for businesses. Primus Canada acquired 100% of the issued stock of Onramp for a total consideration of \$3.9 million (5.3 million Canadian dollars (CAD)), paid in cash.

In April 2004, Primus Canada acquired Magma Communications Ltd. (Magma), a provider of Internet solutions to corporate, government and residential customers in Toronto, Ottawa and Montreal. Primus Canada acquired 100% of the issued stock of Magma for a total consideration of \$11.2 million (15.1 million CAD), half of which was paid in cash and the balance in 734,018 shares of the Company's common stock valued at \$6.1 million.

In February 2004, the Company's wholly-owned subsidiary in Australia, Primus Telecommunications Pty Ltd (Primus Telecom) acquired the Internet service and interactive media businesses of AOL/7 Pty Ltd (AOL/7). AOL/7 was a joint venture between America Online Inc. (AOL), a wholly-owned subsidiary of Time Warner Inc., AAPT Limited, a unit of the Telecom New Zealand Group, and Seven Network Limited. Primus Telecom acquired 100% of the issued stock of AOL/7 which provides the Company with the customer base, content, content development and online advertising businesses, as well as a license for the AOL brand in Australia, for a total consideration of approximately \$19 million (25.3 million Australian dollars (AUD)), paid in cash.

The Company has accounted for these acquisitions using the purchase method of accounting, and accordingly, the net assets and results of operations of the acquired companies have been included in the Company's consolidated financial statements since the acquisition date. The initial purchase price, including direct costs, of the Company's acquisition was allocated to the net assets acquired, including intangible assets, and liabilities assumed, based on their fair values at the acquisition date. As of June 30, 2004, the allocations have not been finalized in accordance with SFAS No. 141 Business Combinations, due to the timing of the acquisitions. Had these companies been acquired on January 1, 2004, the results of their operations would not have materially impacted the consolidated financial statements of the Company, and therefore, pro forma financial information has not been presented.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Acquired intangible assets subject to amortization consisted of the following (in thousands and unaudited):

	June 30, 2004			December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	\$ 176,422	\$ (151,271)	\$ 25,151	\$ 166,446	\$ (145,099)	\$ 21,347
Other	5,715	(1,893)	3,822	2,622	(1,258)	1,364
Total	\$ 182,137	\$ (153,164)	\$ 28,973	\$ 169,068	\$ (146,357)	\$ 22,711

Amortization expense for customer lists and other intangible assets for the three months ended June 30, 2004 and 2003 was \$5.3 million and \$5.1 million, respectively. Amortization expense for customer

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q/A

lists and other intangible assets for the six months ended June 30, 2004 and 2003 was \$9.8 million and \$10.2 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the fiscal years ending December 31, 2004, 2005, 2006, 2007 and 2008 to be approximately \$19.7 million, \$12.3 million, \$4.5 million, \$1.5 million and \$0.8 million, respectively.

Acquired intangible assets not subject to amortization consisted of the following (in thousands and unaudited):

	June 30, 2004 Carrying Amount	December 31, 2003 Carrying Amount
Goodwill	\$ 77,160	\$ 59,895

The changes in the carrying amount of goodwill for the six months ended June 30, 2004 are as follows (in thousands and unaudited):

	North America	Europe	Asia-Pacific	Total
Balance as of January 1, 2004	\$ 50,025	\$ 1,927	\$ 7,943	\$ 59,895
Goodwill acquired during period	10,568		8,827	19,395
Effect of change in foreign currency exchange rates	(641)	(72)	(1,417)	(2,130)
Balance as of June 30, 2004	\$ 59,952	\$ 1,855	\$ 15,353	\$ 77,160

5. LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following (in thousands and unaudited):

	June 30, 2004	December 31, 2003
Obligations under capital leases	\$ 2,256	\$ 4,040
Leased fiber capacity	37,415	40,509
Financing facility and other	13,168	22,626
Senior notes	325,755	272,157
Convertible senior notes	132,000	132,000
Convertible subordinated debentures	71,119	71,119
Subtotal	581,713	542,451
Less: Current portion of long-term obligations	(21,347)	(24,385)
Total long-term obligations	\$ 560,366	\$ 518,066

The indentures governing the senior notes, convertible senior notes and convertible subordinated debentures, as well as other credit arrangements, contain certain financial and other covenants that, among other things, will restrict the Company's ability to incur further indebtedness and make certain payments, including the payment of dividends and repurchase of subordinated debt held by the Company's subsidiaries.

Senior Notes, Convertible Senior Notes and Convertible Subordinated Debentures

In January 2004, Primus Telecommunications Holding, Inc. (PTHI), a direct, wholly-owned subsidiary of the Company, completed the sale of \$240 million in aggregate principal amount of 8% senior notes due 2014 (2004 Senior Notes) with semi-annual interest payments due on January 15th and July 15th, with the first payment due on July 15, 2004, with early redemption at a premium to par at PTHI's option at any time after January 15, 2009. The Company recorded \$7.0 million in costs associated with the issuance of the

2004 Senior Notes, which have been recorded as deferred financing costs in other assets. The effective interest rate at June 30, 2004 was 8.4%. During specified periods, PTHI may redeem up to 35% of the original aggregate principal amount with the net cash proceeds of certain equity offerings of the Company. During the three months ended June 30, 2004, the Company retired \$5.0 million principal amount of the notes for \$4.6 million in cash through open market purchases. See the table below for detail on debt repurchases since December 31, 2002.

In September 2003, the Company completed the sale of \$132 million in aggregate principal amount of 3¾% convertible senior notes due 2010 (2003 Convertible Senior Notes) with semi-annual interest payments due on Marchth and September 15th, with the first payment due on March 15, 2004. The Company recorded \$5.2 million in costs associated with the issuance of the 2003 Convertible Senior Notes, which have been recorded as deferred costs in other assets. The effective interest rate at June 30, 2004 was 4.4%. Holders of these notes may convert their notes into the Company's common stock at any time prior to maturity at an initial conversion price of \$9.3234 per share, which is equivalent to an initial conversion rate of 107.257 shares per \$1,000 principal amount of the notes, subject to adjustment in certain circumstances. The notes are convertible in the aggregate into 14,157,925 shares of the Company's common stock.

In February 2000, the Company completed the sale of \$250 million in aggregate principal amount of 5¾% convertible subordinated debentures due 2007 (2000 Convertible Subordinated Debentures) with semi-annual interest payments due on February 15th and August 15th. On March 13, 2000, the Company announced that the initial purchasers of the 2000 Convertible Subordinated Debentures had exercised their \$50 million over-allotment option granted pursuant to a purchase agreement dated February 17, 2000. The debentures were convertible into approximately 6,025,170 shares of the Company's common stock based on a conversion price of \$49.7913 per share. During the years ended December 31, 2001 and 2000, the Company reduced the principal balance of the debentures through \$36.4 million of open market purchases and \$192.5 million of conversions to its common stock. The principal that was converted to common stock was retired upon conversion and in February 2002, the Company retired all of the 2000 Convertible Subordinated Debentures that it had previously purchased in December 2000 and January 2001. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. See Note 11 Subsequent Events.

In October 1999, the Company completed the sale of \$250 million in aggregate principal amount of 12¾% senior notes due 2009 (October 1999 Senior Notes). The October 1999 Senior Notes are due October 15, 2009, with semi-annual interest payments due on October 15th and April 15th with early redemption at a premium to par at the Company's option at any time after October 15, 2004. During the years ended December 31, 2002, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In June and September 2002, the Company retired all of the October 1999 Senior Notes that it had previously purchased in the principal amount of \$134.3 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. In February and March 2004, the Company retired \$24.4 million principal amount of its October 1999 Senior Notes for \$27.3 million in cash. In May 2004, the Company retired \$0.5 million principal amount of its October 1999 Senior Notes for \$0.6 million in cash. See the table below for detail on debt repurchases since December 31, 2002. See Note 11 Subsequent Events.

In January 1999, the Company completed the sale of \$200 million in aggregate principal amount of 11¼% senior notes due 2009 (January 1999 Senior Notes) with semi-annual interest payments due on January 15th and July 15th. The January 1999 Senior Notes are due January 15, 2009 with early redemption at a premium to par at the Company's option at any time after January 15, 2004. In June 1999, in connection with the Telegroup acquisition, the Company issued \$45.5 million in aggregate principal amount of its 11¼% senior notes due 2009 pursuant to the January 1999 Senior Notes indenture. During the six months ended June 30, 2003 and the years ended December 31, 2002 and 2001, the Company

reduced the principal balance of these senior notes through open market purchases. In June, November and December 2002 and April 2003, the Company retired all of the January 1999 Senior Notes that it had previously purchased in the principal amount of \$135.6 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. In February 2004, the Company satisfied and discharged the entire remaining principal balance of \$109.9 million of its January 1999 Senior Notes. The January 1999 Senior Notes were redeemed at 105.625% of par together with accrued interest to the date of redemption. See the table below for detail on debt repurchases since December 31, 2002.

On May 19, 1998, the Company completed the sale of \$150 million in aggregate principal amount of 97/8% senior notes due 2008 (1998 Senior Notes) with semi-annual interest payments due on May 15th and November 15th. The 1998 Senior Notes are due May 15, 2008 with early redemption at a premium to par at the Company's option any time after May 15, 2003. During the six months ended June 30, 2003 and the years ended December 31, 2002 and 2001, the Company reduced the principal balance of these senior notes through open market purchases. In June, October and December 2002 and April 2003, the Company retired all of the 1998 Senior Notes that it had previously purchased in the principal amount of \$103.4 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. In February 2004, the Company satisfied and discharged the entire remaining principal balance of \$46.6 million of its 1998 Senior Notes. The 1998 Senior Notes were redeemed at 104.938% of par together with accrued interest to the date of redemption. See the table below for detail on debt repurchases since December 31, 2002.

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q/A

The following table shows the changes in the balances of the Company's senior notes, convertible senior notes and convertible subordinated debentures for the six months ended June 30, 2004 and the year ended December 31, 2003 (unaudited):

For the six months ended June 30, 2004

	Balance at December 31, 2003	Debt Issuance	Principal Purchases	Warrant Amortization and Write-off	Balance at June 30, 2004	Cash Paid for Purchase of Principal
2004 8% Senior Notes due 2014	\$	\$ 240,000,000	\$ (5,000,000)	\$	\$ 235,000,000	\$ 4,500,000
2003 334% Convertible Senior Notes due 2010	132,000,000				132,000,000	
2000 534% Convertible Debentures due 2007	71,119,000				71,119,000	
October 1999 1234% Senior Notes due 2009	115,680,000		(24,925,000)		90,755,000	27,852,850
January 1999 1114% Senior Notes due 2009	109,897,000		(109,897,000)			116,078,706
1998 978% Senior Notes due 2008	46,580,000		(46,580,000)			48,880,120
Total	\$ 475,276,000	\$ 240,000,000	\$ (186,402,000)	\$	\$ 528,874,000	\$ 197,311,676

For the year ended December 31, 2003

	Balance at December 31, 2002	Debt Issuance	Principal Purchases	Warrant Amortization and Write-off	Balance at December 31, 2003	Cash Paid for Purchase of Principal
2003 334% Convertible Senior Notes due 2010	\$	\$ 132,000,000	\$	\$	\$ 132,000,000	\$
2000 534% Convertible Debentures due 2007	71,119,000				71,119,000	
October 1999 1234% Senior Notes due 2009	115,680,000				115,680,000	
January 1999 1114% Senior Notes due 2009	116,420,000		(6,523,000)		109,897,000	4,052,414
1998 978% Senior Notes due 2008	50,220,000		(3,640,000)		46,580,000	2,261,350
1997 1134% Senior Notes due 2004	86,997,727		(87,220,000)	222,273		79,805,500
Total	\$ 440,436,727	\$ 132,000,000	\$ (97,383,000)	\$ 222,273	\$ 475,276,000	\$ 86,119,264

Capital Leases, Leased Fiber Capacity, Equipment Financing and Other Long-Term Obligations

During the three months ended September 30, 2001, the Company accepted delivery of fiber optic capacity on an indefeasible rights of use (IRU) basis from Southern Cross Cables Limited (SCCL). The Company and SCCL entered into an arrangement financing the capacity purchase. During the three months ended December 31, 2001, the Company renegotiated the payment terms with SCCL. Under the new terms, the payments for each capacity segment will be made over a five-year term ending in April 2008, which added two years to the original three-year term, and continues to bear interest at 6.0% above LIBOR (7.37% at June 30, 2004). The Company further agreed to purchase \$12.2 million of additional fiber optic capacity from SCCL under the IRU agreement. The Company has fulfilled the total purchase obligation. At June 30, 2004 and December 31, 2003, the Company had a liability recorded under this agreement in the amount of \$19.5 million and \$18.6 million, respectively.

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity on an IRU basis in Australia for \$35.2 million (51.1 million AUD) from Optus Networks Pty. Limited. As of December 31, 2001, the Company had fulfilled the total purchase obligation. The Company signed a promissory note payable over a four-year term ending in April 2005 bearing interest at a rate of 14.31%. During the three months ended June 30, 2003, the Company renegotiated the payment terms extending the payment schedule through March 2007, and lowering the interest rate to 10.2%. At June 30, 2004 and December 31, 2003, the Company had a liability recorded in the amount of \$17.9 million (26.0 million AUD) and \$21.9 million (29.2 million AUD), respectively.

Other Long-Term Obligations

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q/A

In May 2004, the Company's Australian subsidiary terminated a financing agreement, the (Textron Agreement), dated March 28, 2002, with Textron Financial Inc. (Textron), under which Textron agreed to finance eligible receivables from such subsidiary through March 31, 2005. Under the Textron Agreement, the subsidiary agreed to pay program fees based upon the Bloomberg BBSWIB rate plus 5.75% per annum (10.6% at June 30, 2004), plus an annual commitment fee of \$150,000. The finance commitment amount for the Textron Agreement was \$20.0 million. The Company had no accounts receivable balances pledged with no liability recorded at June 30, 2004, and \$11.3 million pledged as collateral with a liability of \$0.3 million, as of December 31, 2003, which is included in current portion of long-term obligations as the financing was payable on demand.

In April 2004, Primus Canada entered into a loan agreement with The Manufacturers Life Insurance Company (Manulife). The agreement provides for a \$31.2 million (42 million CAD) two-year non-revolving term loan credit facility, bearing an interest rate of 7.75%. The agreement allows the proceeds to be used for general corporate purposes and is secured by the assets of Primus Canada's operations. As of June 30, 2004, the Company has no outstanding liability under this loan agreement.

In September 2002, the Company signed an agreement to acquire the United States-based retail switched voice services customer base of Cable & Wireless (C&W). The Company started acquiring the customer base during the three months ended December 31, 2002, which resulted in a customer list balance acquired of \$15.4 million, of which a liability of \$6.1 million and \$7.6 million remained payable at June 30, 2004 and December 31, 2003, respectively. The purchase price has been financed through a deferred payment arrangement over a two-year period, ending in December 2004, and bears no interest.

6. OPERATING SEGMENT AND RELATED INFORMATION

The Company has three reportable operating segments based on management's organization of the enterprise into geographic areas North America, Europe and Asia-Pacific. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Net revenue by reportable segment is reported on the basis of where services are provided. The Company has no single customer representing greater than 10% of its revenues. Operations and assets of the North America segment include shared corporate functions and assets.

Summary information with respect to the Company's segments is as follows (in thousands and unaudited):

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net Revenue				
North America				
<i>United States</i>	\$ 58,709	\$ 68,210	\$ 130,801	\$ 140,812
<i>Canada</i>	57,981	50,946	119,711	95,164
<i>Other</i>	833	911	1,858	1,788
Total North America	117,523	120,067	252,370	237,764
Europe				
<i>United Kingdom</i>	60,025	31,462	110,510	66,900
<i>Germany</i>	11,811	15,248	24,715	28,285
<i>Netherlands</i>	19,213	46,395	40,831	84,556
<i>Other</i>	21,829	20,551	42,870	39,444
Total Europe	112,878	113,656	218,926	219,185
Asia-Pacific				
<i>Australia</i>	95,313	81,830	196,374	154,333
<i>Other</i>	5,901	4,687	11,968	9,401
Total Asia-Pacific	101,214	86,517	208,342	163,734
Total	\$ 331,615	\$ 320,240	\$ 679,638	\$ 620,683
Income (Loss) from Operations				
North America	\$ (2,456)	\$ 1,244	\$ (190)	\$ 3,890
Europe	4,986	941	10,151	2,759
Asia-Pacific	9,630	10,429	22,741	17,888
Total	\$ 12,160	\$ 12,614	\$ 32,702	\$ 24,537

	June 30, 2004	December 31, 2003
Assets		
North America		

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q/A

United States	\$ 177,229	\$ 190,527
Canada	128,245	124,789
Other	6,999	7,671
Total North America	312,473	322,987
Europe		
United Kingdom	75,164	80,243
Germany	21,227	20,434
Netherlands	11,960	15,387
Other	58,024	57,138
Total Europe	166,375	173,202
Asia-Pacific		
Australia	233,329	229,765
Other	26,145	25,210
Total Asia-Pacific	259,474	254,975
Total	\$ 738,322	\$ 751,164

The Company offers three main products Voice, data/Internet, and voice-over-Internet protocol (VOIP) in all three segments. Summary net revenue information with respect to the Company's products is as follows (in thousands and unaudited):

	Three months ended		Six months ended	
	June 30, 2004	2003	June 30, 2004	2003
Voice	\$ 270,254	\$ 269,407	\$ 558,682	\$ 525,096
Data/Internet	43,799	32,225	84,321	60,461
VOIP	17,562	18,608	36,635	35,126
Total	\$ 331,615	\$ 320,240	\$ 679,638	\$ 620,683

7. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and leased fiber capacity financing (vendor financing), purchase obligations and non-cancelable operating leases as of June 30, 2004 are as follows (in thousands):

Year Ending December 31,	Vendor Financing	Purchase Obligations	Operating Leases
2004 (as of June 30, 2004)	\$ 8,616	\$ 7,925	\$ 6,952
2005	15,518	24,675	10,086
2006	13,999	8,100	7,123
2007	4,994		5,671
2008	1,755		3,468
Thereafter	237		2,286
Total Minimum Principal & Interest Payments	45,119	40,700	35,586
Less: Amount Representing Interest	(5,448)		
	\$ 39,671	\$ 40,700	\$ 35,586

The Company has contractual obligations to utilize network facilities from certain carriers with terms greater than one year. The Company does not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term or at rates below or above market value.

Rent expense under operating leases was \$5.3 million and \$4.5 million for the three months ended June 30, 2004 and 2003, respectively. Rent expense under operating leases was \$10.1 million and \$8.4 million for the six months ended June 30, 2004 and June 30, 2003, respectively.

The purchase price for Telesonic Communications, Inc. (TCI), a Canadian prepaid card company, may increase based on additional consideration to be paid, as provided by the terms of the acquisition agreement, if the acquired company's adjusted revenues exceed certain targeted levels by May 2005.

The Company and certain of its executive officers were named as defendants in two separate securities lawsuits brought by stockholders (Plaintiffs) of Tutornet.com, Inc. (Tutornet) in the United States District Courts in Virginia and New Jersey. Plaintiffs sued Tutornet and several of its officers (collectively, the Non-Primus Defendants) for an undisclosed amount alleging fraud in the sale of Tutornet securities. Plaintiffs

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q/A

also named the Company and several of the Company's executive officers (the Primus Defendants) as co-defendants. No officer of Primus has ever served as an officer or director of Tutornet or acquired any securities of Tutornet. Neither the Company nor any of the Company's subsidiaries or affiliates own, or have ever owned, any securities of Tutornet.

In the Virginia case, the Primus Defendants were dismissed before the case went to the jury. The case continued against the Non-Primus Defendants, and the jury rendered a verdict of \$176 million in favor of Plaintiffs against the Non-Primus Defendants only. The Non-Primus Defendants filed post-trial motions seeking to reverse or reduce the jury's award, and Plaintiffs sought a new trial involving the Primus Defendants. On April 2, 2003, the judge denied Plaintiffs' motion for a new trial and/or to alter and amend the judgment, as well as their motion for directed verdicts involving the Primus Defendants. In May 2003, Plaintiffs filed an appeal in the 4th Circuit of the United States Court of Appeals (4th Circuit) regarding the Primus Defendants' dismissal. Plaintiffs and the Primus Defendants briefed the 4th Circuit in 2003 and participated in oral arguments in May 2004. On July 16, 2004, the three-judge panel of the 4th Circuit affirmed the district court's decision. Plaintiffs did not file a petition for rehearing before the three-judge panel or rehearing before all the judges on the 4th Circuit within the required 14-day period, which period expired on July 30, 2004.

The New Jersey case was filed on September 24, 2002 and included claims against the Primus Defendants. The Primus Defendants moved to dismiss, and the case was stayed pending further decision by the court in the Virginia case. After the April 2, 2003 decision in the Virginia case, the parties in the New Jersey case agreed to a dismissal without prejudice of the claims against the Primus Defendants, pending a decision in the appeal by the plaintiffs in the Virginia case. Plaintiffs have been notified of the 4th Circuit's decision to affirm the district court decision in the Virginia case.

In December 2003, Primus Telecommunication Inc. (PTI), the Company's principal United States operating subsidiary, was served with notice that the Federal Communications Commission (FCC) was conducting an inquiry regarding 96 alleged telephone calls made on behalf of PTI to residential telephone lines that were either (1) included on the Do-Not-Call Registry or (2) to consumers who directly requested not to receive telemarketing calls from PTI. PTI does not conduct outbound telemarketing to residential customers, but does use third-party telemarketers. PTI has reviewed the circumstances surrounding the subject matter of the inquiry and responded to the original inquiry. PTI also has supplemented its initial response with additional information requested by the FCC. The Do-Not-Call regulations are relatively new and little formal interpretive guidance exists regarding whether the matters identified in the inquiry represent violations of these regulations that are not covered by the safe harbor provisions. The FCC's forfeiture guidelines do not establish a forfeiture amount for violating the Do-Not-Call Registry rules. However, based on the few publicly available cases that form the FCC's enforcement history regarding Do-Not-Call violations, PTI believes that the maximum penalty would be in the range of \$10,000 per violation. The Company has recorded an accrual for the amounts that the Company estimates to be the probable loss. The Company believes that this inquiry will not have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

On December 9, 1999, Empresa Hondurena de Telecomunicaciones, S.A. (Plaintiff), based in Honduras, filed suit in Florida State Court in Broward County against TresCom and one of TresCom's wholly-owned subsidiaries, St. Thomas and San Juan Telephone Company, alleging that such entities failed to pay amounts due to Plaintiff pursuant to contracts for the exchange of telecommunications traffic during the period from December 1996 through September 1998. The Company acquired TresCom in June 1998, and TresCom is currently the Company's subsidiary. Plaintiff is seeking approximately \$14 million in damages, plus legal fees and costs. The Company filed an answer on January 25, 2000, and discovery has commenced. A trial date has not yet been set. The Company has recorded an accrual for the amounts that management estimates to be the probable loss. The Company's legal and financial liability with respect to such legal proceeding would not be covered by insurance, and the Company's ultimate liability, if any, cannot be estimated with certainty at this time. Accordingly, an adverse result for the full amount sought or some significant percentage thereof could have a material adverse effect on the Company's financial results. The Company intends to defend the case vigorously. The Company believes that this suit will not have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

The Company is subject to certain other claims and legal proceedings that arise in the ordinary course of its business activities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably to the Company. The Company believes that any aggregate liability that may ultimately result from the resolution of these other matters will not have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

8. LOSS ON SALE OF FIXED ASSETS

The Company recorded a loss on sale of fixed assets of \$1.9 million and \$0.8 million for the three and six months ended June 30, 2004 and 2003, respectively. The loss in 2004 was the result of a sale of network equipment which was decommissioned when it was replaced by newer technology during the three months ended June 30, 2004. The loss in 2003 was also the result of a sale of network equipment.

9. BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE (AS RESTATED)

Basic income (loss) per common share is calculated by dividing income attributable to common stockholders by the weighted average common shares outstanding during the period.

Prior to the conversion of the Series C convertible preferred stock (Series C Preferred) into common shares in November 2003, the Company included the number of common shares issuable upon conversion of the Series C Preferred in the basic weighted average common shares outstanding as the Series C Preferred was deemed to participate in the earnings of the Company with common shares. Subsequent to the issuance of the Company's Form 10-Q for the quarter ended June 30, 2004, the Company determined that the Series C Preferred did not meet the definition of a participating security. As a result, the basic income per common share for the three-month and six-month periods ended June 30, 2003 has been restated to exclude the potentially dilutive common shares issuable upon conversion of the Series C Preferred for the period prior to its conversion. Also, because the Series C Preferred was deemed to be non-participating, the shares are assumed to be converted into common shares and the accreted and deemed dividend on convertible preferred stock is removed from the calculation of diluted income per common share.

A summary of the effects of the adjustments to the previously issued consolidated condensed financial information follows (in thousands, except per share amounts, and unaudited):

	For the Three Months Ended June 30, 2003		For the Six Months Ended June 30, 2003	
	Previously Reported	As Restated	Previously Reported	As Restated
Income per common share:				
Basic	\$ 0.21	\$ 0.29	\$ 0.35	\$ 0.45
Diluted	\$ 0.21	\$ 0.22	\$ 0.34	\$ 0.36
Basic weighted average common shares outstanding	87,774	65,157	85,332	65,120

Diluted income per common share adjusts basic income per common share for the effects of potentially dilutive common stock equivalents. Potentially dilutive common shares primarily include the dilutive effects of common shares issuable under the Company's stock option compensation plans computed using the treasury stock method and the dilutive effects of shares issuable upon the conversion of its Series C Preferred, September 2003 Convertible Senior Notes, 2000 Convertible Subordinated Debentures and the warrants to purchase shares associated with the 1997 Senior Notes computed using the if-converted method. The warrants expire on August 1, 2004.

For the three-month and six-month periods ended June 30, 2004, the following could potentially dilute income per common share in the future but were excluded from the calculation of income per common share due to their antidilutive effects:

- 8.3 million shares issuable under the Company's stock option compensation plans,
- 14.2 million shares issuable from the September 2003 Convertible Senior Notes,
- 1.4 million shares issuable from the 2000 Convertible Subordinated Debentures, and
- 0.3 million shares from the warrants associated with the 1997 Senior Notes.

For the three-month and six-month periods ended June 30, 2003, the following could potentially dilute income per common share in the future but were excluded from the calculation of income per common share due to their antidilutive effects:

- 0.3 million shares, issuable under the Company's stock option compensation plans,
- 1.4 million shares issuable from the 2000 Convertible Subordinated Debentures, and
- 0.4 million shares from the warrants associated with the 1997 Senior Notes.

A reconciliation of basic income per common share to diluted income per common share is below (in thousands, except per share amounts, and unaudited):

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net income (loss)	\$ (14,886)	\$ 20,036	\$ (24,941)	\$ 31,237
Accreted and deemed dividend on convertible preferred stock		(1,356)		(1,678)
Income (loss) attributable to common stockholders	\$ (14,886)	\$ 18,680	\$ (24,941)	\$ 29,559
Weighted average common shares outstanding - basic	89,611	65,157	89,190	65,120
Series C Preferred		22,617		20,212
In-the-money options exercisable under stock option compensation plans		2,970		2,240
Weighted average common shares outstanding - diluted	89,611	90,744	89,190	87,572
Income (loss) per common share:				
Basic	\$ (0.17)	\$ 0.29	\$ (0.28)	\$ 0.45
Diluted	\$ (0.17)	\$ 0.22	\$ (0.28)	\$ 0.36

10. GUARANTOR/NON-GUARANTOR CONSOLIDATING CONDENSED FINANCIAL INFORMATION

Subsequent to the issuance of the Company's Form 10-Q for the quarter ended June 30, 2004 the Company's management determined that the previously issued guarantor/non-guarantor consolidating condensed financial information disclosure did not reflect the capital contribution of certain intercompany receivable and payable balances to the Company's wholly owned subsidiary, PTHI, which occurred in connection with PTHI's issuance of 8% senior notes, which are guaranteed by the Company, in January 2004. As a result, Note 10 is hereby restated to reflect such capital contribution.

A summary of the effects of the adjustments on the previously issued condensed consolidating financial information as of, and for the three-month and six-month periods ended June 30, 2004 follows (in thousands):

	For the Three Months Ended June 30, 2004					
	Previously Reported			As Restated		
	PTGI	PTHI	Elimination	PTGI	PTHI	Elimination
Statement of Operations Data:						
Interest expense	\$ (5,382)	\$ (6,197)	\$	\$ (5,379)	\$ (6,200)	\$
Foreign currency transaction gain (loss)	\$ (7,089)	\$ (7,576)	\$	\$ 104	\$ (14,769)	\$
Intercompany interest	\$ 1,983	\$ (1,983)	\$	\$ 345	\$ (345)	\$
Equity in net income of subsidiaries	\$ 2,966	\$	\$ 2,966	\$ (8,818)	\$	\$ (8,818)
Income tax expense	\$ (294)	\$ (1,357)	\$	\$	\$ (1,651)	\$
Net income	\$ (24,941)	\$ 9,143	\$ (9,143)	\$ (24,941)	\$ 4,385	\$ (4,385)

	For the Six Months Ended June 30, 2004					
	Previously Reported			As Restated		
	PTGI	PTHI	Elimination	PTGI	PTHI	Elimination
Statement of Operations Data:						
Interest expense	\$ (13,660)	\$ (12,998)	\$	\$ (13,646)	\$ (13,012)	\$

Edgar Filing: PRIMUS TELECOMMUNICATIONS GROUP INC - Form 10-Q/A

Foreign currency transaction gain (loss)	\$ (7,480)	\$ (8,317)	\$	\$ 97	\$ (15,894)	\$
Intercompany interest	\$ 3,775	\$ (3,775)	\$	\$ 334	\$ (334)	\$
Equity in net income of subsidiaries	\$ 9,143	\$	\$ (9,143)	\$ 4,385	\$	\$ (4,385)
Income tax expense	\$ (608)	\$ (1,972)	\$	\$	\$ (2,580)	\$

June 30, 2004

	Previously Reported			As Restated		
	PTGI	PTHI	Elimination	PTGI	PTHI	Elimination
Balance Sheet Data:						
Intercompany receivables	\$ 703,615	\$	\$ (703,615)	\$	\$ 148,641	\$ (148,641)
Investment in subsidiaries	\$ (462,004)	\$	\$ 462,004	\$ 389,323	\$	\$ (389,323)
Accrued income taxes	\$ 1,507	\$ 20,226	\$	\$ 578	\$ 21,155	\$
Intercompany payables	\$	\$ 703,615	\$ (703,615)	\$ 148,641	\$	\$ (148,641)
Additional paid-in capital	\$ 658,248	\$ 305,852	\$ (305,852)	\$ 658,248	\$ 1,161,937	\$ (1,161,937)
Accumulated deficit	\$ (710,018)	\$ (767,856)	\$ 767,856	\$ (710,018)	\$ (772,614)	\$ 772,614

For the Six Months Ended June 30, 2004

	Previously Reported			As Restated		
	PTGI	PTHI	Elimination	PTGI	PTHI	Elimination
Statement of Cash Flows Data:						
Net income	\$ (24,941)	\$ 9,143	\$ (9,143)	\$ (24,941)	\$ 4,385	\$ (4,385)
Equity in net income of subsidiary	\$ (9,143)	\$	\$ 9,143	\$ (4,385)	\$	\$ 4,385
Unrealized foreign currency transaction loss on intercompany and foreign debt	\$ 7,256	\$ 7,214	\$	\$	\$ 14,470	\$
(Increase) decrease in intercompany balance	\$ 211,400	\$ (211,400)	\$	\$ 214,828	\$ (214,828)	\$
Decrease in accrued expenses, other current liabilities,	\$	\$	\$	\$	\$	\$
accrued income taxes and other liabilities	\$ (415)	\$ (17,969)	\$	\$ (1,344)	\$ (17,040)	\$

PTHI's 2004 Senior Notes are fully and unconditionally guaranteed by Primus Telecommunications Group, Incorporated (PTGI) on a senior basis as of June 30, 2004. Accordingly, the following condensed consolidating financial information as of June 30, 2004 and December 31, 2003 and for the three-month and six-month periods ended June 30, 2004 and June 30, 2003 are included for (a) PTGI on a stand-alone basis; (b) PTHI and its subsidiaries; and (c) PTGI on a consolidated basis. PTHI was established on October 29, 2003 and was inactive until 2004. For comparative purposes for the 2003 periods presented, the PTHI column represents the consolidated subsidiaries that were contributed to PTHI during the capital restructuring in 2004.

Investments in subsidiaries are accounted for using the equity method for purposes of the consolidating presentation. The principal elimination entries eliminate investments in subsidiaries, intercompany balances and intercompany transactions.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING STATEMENT OF OPERATIONS
(in thousands)
(unaudited)

	For the Three Months Ended June 30, 2004			Consolidated
	PTGI	PTHI	Eliminations	
NET REVENUE	\$	\$ 331,615	\$	\$ 331,615
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)		199,035		199,035
Selling, general and administrative	1,088	94,319		95,407
Depreciation and amortization		23,140		23,140
Loss on sale of fixed assets		1,873		1,873
Total operating expenses	1,088	318,367		319,455
INCOME (LOSS) FROM OPERATIONS	(1,088)	13,248		12,160
INTEREST EXPENSE	(5,379)	(6,200)		(11,579)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OF DEBT	(60)	357		297
INTEREST INCOME AND OTHER INCOME	10	542		552
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	104	(14,769)		(14,665)
INTERCOMPANY INTEREST	345	(345)		
EQUITY IN NET LOSS OF SUBSIDIARIES	(8,818)		8,818	
LOSS BEFORE INCOME TAXES	(14,886)	(7,167)	8,818	(13,235)
INCOME TAX EXPENSE		(1,651)		(1,651)
NET LOSS	\$ (14,886)	\$ (8,818)	\$ 8,818	\$ (14,886)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING STATEMENT OF OPERATIONS

(in thousands)

(unaudited)

	For the Three Months Ended June 30, 2003			Consolidated
	PTGI	PTHI	Eliminations	
NET REVENUE	\$	\$ 320,240	\$	\$ 320,240
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)		196,363		196,363
Selling, general and administrative	1,068	88,173		89,241
Depreciation and amortization		21,218		21,218
Loss on sale of fixed assets		804		804
Asset impairment write-down				
Total operating expenses	1,068	306,558		307,626
INCOME (LOSS) FROM OPERATIONS	(1,068)	13,682		12,614
INTEREST EXPENSE	(10,686)	(3,936)		(14,622)
GAIN ON EARLY EXTINGUISHMENT OF DEBT	3,639	4,342		7,981
INTEREST INCOME AND OTHER INCOME	18	(100)		(82)
FOREIGN CURRENCY TRANSACTION GAIN	2,398	12,367		14,765
INTERCOMPANY INTEREST	511	(511)		
EQUITY IN NET INCOME OF SUBSIDIARIES	25,313		(25,313)	
INCOME BEFORE INCOME TAXES	20,125	25,844	(25,313)	20,656
INCOME TAX EXPENSE	(89)	(531)		(620)
NET INCOME	20,036	25,313	(25,313)	20,036
ACCRETED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK	(1,356)			(1,356)
INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 18,680	\$ 25,313	\$ (25,313)	\$ 18,680

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING STATEMENT OF OPERATIONS

(in thousands)

(unaudited)

	For the Six Months Ended June 30, 2004			Consolidated
	PTGI	PTHI	Eliminations	
NET REVENUE	\$	\$ 679,638	\$	\$ 679,638
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)		408,692		408,692
Selling, general and administrative	2,510	187,214		189,724
Depreciation and amortization		46,647		46,647
Loss on sale of fixed assets		1,873		1,873
Total operating expenses	2,510	644,426		646,936
INCOME (LOSS) FROM OPERATIONS	(2,510)	35,212		32,702
INTEREST EXPENSE	(13,646)	(13,012)		(26,658)
LOSS ON EARLY EXTINGUISHMENT OF DEBT	(13,758)	(138)		(13,896)
INTEREST INCOME AND OTHER INCOME	157	1,131		1,288
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	97	(15,894)		(15,797)
INTERCOMPANY INTEREST	334	(334)		
EQUITY IN NET INCOME OF SUBSIDIARIES	4,385		(4,385)	
INCOME (LOSS) BEFORE INCOME TAXES	(24,941)	6,965	(4,385)	(22,361)
INCOME TAX EXPENSE		(2,580)		(2,580)
NET INCOME (LOSS)	\$ (24,941)	\$ 4,385	\$ (4,385)	\$ (24,941)

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING STATEMENT OF OPERATIONS

(in thousands)

(unaudited)

	For the Six Months Ended June 30, 2003			Consolidated
	PTGI	PTHI	Eliminations	
NET REVENUE	\$	\$ 620,683	\$	\$ 620,683
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)		386,386		386,386
Selling, general and administrative	1,780	165,086		166,866
Depreciation and amortization		41,553		41,553
Loss on sale of fixed assets		804		804
Asset impairment write-down		537		537
Total operating expenses	1,780	594,366		596,146
INCOME (LOSS) FROM OPERATIONS	(1,780)	26,317		24,537
INTEREST EXPENSE	(22,468)	(7,531)		(29,999)
GAIN ON EARLY EXTINGUISHMENT OF DEBT	10,292	4,342		14,634
INTEREST INCOME AND OTHER INCOME	40	160		200
FOREIGN CURRENCY TRANSACTION GAIN	4,111	20,707		24,818
INTERCOMPANY INTEREST	1,859	(1,859)		
EQUITY IN NET INCOME OF SUBSIDIARIES	39,364		(39,364)	
INCOME BEFORE INCOME TAXES	31,418	42,136	(39,364)	34,190
INCOME TAX EXPENSE	(181)	(2,772)		(2,953)
NET INCOME	31,237	39,364	(39,364)	31,237
ACCRETED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK	(1,678)			(1,678)
INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 29,559	\$ 39,364	\$ (39,364)	\$ 29,559

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING BALANCE SHEET
(in thousands)
(unaudited)

	June 30, 2004			
	PTGI	PTHI	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,101	\$ 65,248	\$	\$ 66,349
Accounts receivable		176,897		176,897
Prepaid expenses and other current assets	830	43,620		44,450
Total current assets	1,931	285,765		287,696
INTERCOMPANY RECEIVABLES		148,641	(148,641)	
INVESTMENTS IN SUBSIDIARIES	389,323		(389,323)	
RESTRICTED CASH		12,012		12,012
PROPERTY AND EQUIPMENT Net		314,688		314,688
GOODWILL		77,160		77,160
OTHER INTANGIBLE ASSETS Net		28,973		28,973
OTHER ASSETS	6,988	10,805		17,793
TOTAL ASSETS	\$ 398,242	\$ 878,044	\$ (537,964)	\$ 738,322
LIABILITIES AND STOCKHOLDERS DEFICIT				
CURRENT LIABILITIES:				
Accounts payable	\$ 71	\$ 96,232	\$	\$ 96,303
Accrued interconnection costs		76,203		76,203
Accrued expenses and other current liabilities	506	69,692		70,198
Accrued income taxes	578	21,155		21,733
Accrued interest	5,445	8,931		14,376
Current portion of long-term obligations		21,347		21,347
Total current liabilities	6,600	293,560		300,160
INTERCOMPANY PAYABLES	148,641		(148,641)	
LONG-TERM OBLIGATIONS	293,873	266,493		560,366
OTHER LIABILITIES		1,420		1,420
Total liabilities	449,114	561,473	(148,641)	861,946
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS DEFICIT:				
Common stock	898			898
Additional paid-in capital	658,248	1,161,937	(1,161,937)	658,248
Accumulated deficit	(710,018)	(772,614)	772,614	(710,018)
Accumulated other comprehensive loss		(72,752)		(72,752)
Total stockholders deficit	(50,872)	316,571	(389,323)	(123,624)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 398,242	\$ 878,044	\$ (537,964)	\$ 738,322

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING BALANCE SHEET
(in thousands)
(unaudited)

	December 31, 2003			
	PTGI	PTHI	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,786	\$ 62,280	\$	\$ 64,066
Accounts receivable		200,817		200,817
Prepaid expenses and other current assets	1,411	35,519		36,930
Total current assets	3,197	298,616		301,813
INTERCOMPANY RECEIVABLES	916,214		(916,214)	
INVESTMENTS IN SUBSIDIARIES	(471,147)		471,147	
RESTRICTED CASH		12,463		12,463
PROPERTY AND EQUIPMENT Net		341,167		341,167
GOODWILL		59,895		59,895
OTHER INTANGIBLE ASSETS Net		22,711		22,711
OTHER ASSETS	10,033	3,082		13,115
TOTAL ASSETS	\$ 458,297	\$ 737,934	\$ (445,067)	\$ 751,164
LIABILITIES AND STOCKHOLDERS DEFICIT				
CURRENT LIABILITIES:				
Accounts payable	\$ 1,247	\$ 107,368	\$	\$ 108,615
Accrued interconnection costs		89,993		89,993
Accrued expenses and other current liabilities	463	68,993		69,456
Accrued income taxes	1,966	20,421		22,387
Accrued interest	12,363	489		12,852
Current portion of long-term obligations		24,385		24,385
Total current liabilities	16,039	311,649		327,688
INTERCOMPANY PAYABLES		916,214	(916,214)	
LONG-TERM OBLIGATIONS	475,291	42,775		518,066
OTHER LIABILITIES		1,776		1,776
Total liabilities	491,330	1,272,414	(916,214)	847,530
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS DEFICIT:				
Common stock	885			885
Additional paid-in capital	651,159	305,852	(305,852)	651,159
Accumulated deficit	(685,077)	(776,999)	776,999	(685,077)
Accumulated other comprehensive loss		(63,333)		(63,333)
Total stockholders deficit	(33,033)	(534,480)	471,147	(96,366)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 458,297	\$ 737,934	\$ (445,067)	\$ 751,164

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING STATEMENT OF CASH FLOWS
(in thousands)
(unaudited)

	For the Six Months Ended June 30, 2004			
	PTGI	PTHI	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$ (24,941)	\$ 4,385	\$ (4,385)	\$ (24,941)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Provision for doubtful accounts receivable		7,483		7,483
Depreciation and amortization		46,647		46,647
Loss on sale of fixed assets		1,873		1,873
Equity in net income of subsidiary	(4,385)		4,385	
Equity investment loss		34		34
Loss on early extinguishment of debt	13,758	138		13,896
Minority interest share of loss		(234)		(234)
Unrealized foreign currency transaction loss on intercompany and foreign debt		14,470		14,470
Changes in assets and liabilities, net of acquisitions:				
Decrease in accounts receivable		10,178		10,178
(Increase) decrease in prepaid expenses and other current assets	581	(7,493)		(6,912)
(Increase) decrease in restricted cash		(199)		(199)
(Increase) decrease in other assets	696	(1,625)		(929)
(Increase) decrease in intercompany balance	214,828	(214,828)		
Increase (decrease) in accounts payable	(1,177)	(9,528)		(10,705)
Decrease in accrued expenses, other current liabilities, accrued income taxes and other liabilities	(1,344)	(17,040)		(18,384)
Increase (decrease) in accrued interest	(6,918)	8,467		1,549
Net cash provided by (used in) operating activities	191,098	(157,272)		33,826
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment		(17,455)		(17,455)
Cash used for business acquisitions, net of cash acquired		(26,450)		(26,450)
Net cash used in investing activities		(43,905)		(43,905)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of long-term obligations, net		235,240		235,240
Purchase of the Company's debt securities	(192,812)	(4,500)		(197,312)
Principal payments on capital leases, vendor financing and other long-term obligations		(19,611)		(19,611)
Proceeds from sale of common stock	1,029			1,029
Net cash (used in) provided by financing activities	(191,783)	211,129		19,346
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		(6,984)		(6,984)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(685)	2,968		2,283
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,786	62,280		64,066
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,101	\$ 65,248	\$	\$ 66,349

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING STATEMENT OF CASH FLOWS

(in thousands)

(unaudited)

	For the Six Months Ended June 30, 2003			Consolidated
	PTGI	PTHI	Eliminations	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$ 31,237	\$ 39,364	\$ (39,364)	\$ 31,237
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Provision for doubtful accounts receivable		12,210		12,210
Stock issuance 401(k) Plan and Restricted Stock Plan		258		258
Non-cash compensation expense		245		245
Depreciation, amortization and accretion		41,586		41,586
Loss on sale of fixed assets		804		804
Asset impairment write-down		537		537
Equity in net income of subsidiary	(39,364)		39,364	
Equity investment loss		649		649
Gain on early extinguishment of debt	(10,292)	(4,342)		(14,634)
Minority interest share of loss		(210)		(210)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(10,867)	(15,621)		(26,488)
Changes in assets and liabilities, net of acquisitions:				
Increase in accounts receivable		(18,280)		(18,280)
(Increase) decrease in prepaid expenses and other current assets	(358)	7,787		7,429
Decrease in restricted cash		891		891
Decrease in other assets	811	(277)		534
(Increase) decrease in intercompany balance	157,978	(157,978)		
Increase in accounts payable	(463)	2,557		2,094
Increase in accrued expenses, other current liabilities, accrued income taxes and other liabilities	215	2,473		2,688
Increase (decrease) in accrued interest	(2,508)	112		(2,396)
Net cash provided by (used in) operating activities	126,389	(87,235)		39,154
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment		(9,677)		(9,677)
Cash used for business acquisitions, net of cash acquired		(1,129)		(1,129)
Net cash used in investing activities		(10,806)		(10,806)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of long-term obligations, net		9,125		9,125
Purchase of the Company's debt securities	(42,549)			(42,549)
Principal payments on capital leases, vendor financing and other long-term obligations	(90,534)	59,031		(31,503)
Proceeds from sale of convertible preferred stock, net	8,895			8,895
Proceeds from sale of common stock	231			231
Net cash (used in) provided by financing activities	(123,957)	68,156		(55,801)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		737		737
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,432	(29,148)		(26,716)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	590	91,902		92,492
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,022	\$ 62,754	\$	\$ 65,776

11. SUBSEQUENT EVENTS

In July 2004, the Company's wholly owned subsidiary, Primus Canada, entered into a purchase agreement with 3588599 Canada Inc., dba Sun Telecom Group (the Seller), a Canadian telecom provider, to purchase certain of the Seller's customer contracts, access to a portion of the Seller's customer base and certain related assets. Under the asset purchase agreement, the purchase price is expected to be approximately \$2.0 million (2.6 million CAD), subject to post-closing adjustments, and has been paid in cash.

In August 2004, the Company retired \$8.1 million principal amount of its October 1999 Senior Notes for \$7.1 million in cash and \$4.0 million principal amount of its 2000 Convertible Subordinated Debentures for \$3.0 million in cash. These transactions resulted in a gain on early extinguishment of debt of \$2.0 million, excluding the write-off of related deferred financing costs.

27

ITEM 4. CONTROLS AND PROCEDURES

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities and Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting or in other factors that could significantly affect internal controls over financial reporting, that occurred during the period covered by this report, nor subsequent to the date we carried out our evaluation, that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibit

Number	Description
31	Certifications.
32	Certifications*.

* This certification is being furnished and will not be deemed filed for purposes of Section 18 of the Securities Exchange Act (15 U.S.C. 78r) and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date:	October 15, 2004	Primus Telecommunications Group, Incorporated
		By: /s/ Neil L. Hazard
		Neil L. Hazard
		<i>Executive Vice President, Chief Operating Officer and Chief Financial Officer (Principal Financial Officer)</i>
Date:	October 15, 2004	By: /s/ Tracy Book Lawson
		Tracy Book Lawson
		<i>Vice President Corporate Controller (Principal Accounting Officer)</i>