

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

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q/A

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

For the quarterly period ended **September 30, 2003**

**OR**

o **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)

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

(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 solely to amend the 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 Company's Form 10-Q for the three- and nine-month periods ended September 30, 2003 as originally filed with the Securities and Exchange Commission on November 14, 2003 (the Quarterly Report). Basic weighted average common shares outstanding as presented on the statements of operations and in the notes to the consolidated condensed financial statements for the three- and nine-month periods ended September 30, 2003 is hereby restated to reflect the removal of the Series C convertible preferred stock from the calculation of 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 were restated accordingly. There is no impact on previously reported net income for the three- and nine-month periods ended September 30, 2003 nor on the statements of operations for the three- and nine-month periods ended September 30, 2002. 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.

Concurrently, the Company is filing its amended quarterly reports on Form 10-Q/A for the quarters ended June 30, 2004 and March 31, 2004 and its amended annual report on 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.

---

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**INDEX TO FORM 10-Q/A**

	<b>Page No</b>
Part I.	
FINANCIAL INFORMATION	
Item 1.	
FINANCIAL STATEMENTS (UNAUDITED)	
<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</u>	4
<u>Notes to Consolidated Condensed Financial Statements</u>	5
<u>Item 4.</u>	
<u>CONTROLS AND PROCEDURES</u>	18
Part II.	
<u>OTHER INFORMATION</u>	
<u>Item 6.</u>	
<u>EXHIBITS AND REPORTS ON FORM 8-K</u>	19
<u>SIGNATURES</u>	20

---

## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003*	2002	2003*	2002
NET REVENUE	\$ 328,265	\$ 260,533	\$ 948,948	\$ 756,444
COST OF REVENUE	195,804	170,782	582,190	498,244
GROSS MARGIN	132,461	89,751	366,758	258,200
OPERATING EXPENSES				
Selling, general and administrative	87,280	63,570	254,146	187,084
Depreciation and amortization	21,160	20,096	62,713	60,067
Loss on sale of fixed assets			804	
Asset impairment write-down		233	537	570
Total operating expenses	108,440	83,899	318,200	247,721
INCOME FROM OPERATIONS	24,021	5,852	48,558	10,479
INTEREST EXPENSE	(16,692)	(17,562)	(46,691)	(52,085)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OF DEBT	(1,382)		13,252	27,251
INTEREST INCOME AND OTHER INCOME	185	5	385	880
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	431	(674)	25,249	(392)
INCOME (LOSS) BEFORE INCOME TAXES	6,563	(12,379)	40,753	(13,867)
INCOME TAX BENEFIT (EXPENSE)	(728)	(1,989)	(3,681)	8,679
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	5,835	(14,368)	37,072	(5,188)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE				(10,973)
NET INCOME (LOSS)	5,835	(14,368)	37,072	(16,161)
ACCRETED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK			(1,678)	
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 5,835	\$ (14,368)	\$ 35,394	\$ (16,161)
BASIC INCOME (LOSS) PER COMMON SHARE:				
Income (loss) before cumulative effect of change in accounting principle	\$ 0.09*	\$ (0.22)	\$ 0.54*	\$ (0.08)
Cumulative effect of change in accounting principle				(0.17)
Income (loss)	\$ 0.09*	\$ (0.22)	\$ 0.54*	\$ (0.25)
DILUTED INCOME (LOSS) PER COMMON SHARE:				
Income (loss) before cumulative effect of change in accounting principle	\$ 0.06	\$ (0.22)	\$ 0.41*	\$ (0.08)

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

Cumulative effect of change in accounting principle					(0.17)			
Income (loss)	\$	0.06	\$	(0.22)	\$	0.41*	\$	(0.25)

WEIGHTED AVERAGE COMMON SHARES  
OUTSTANDING

Basic		65,398*		64,870		65,214*		64,536
Diluted		91,763		64,870		90,026		64,536

---

\* As restated, see Note 10.

See notes to consolidated condensed financial statements.

## PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

## CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	September 30, 2003	December 31, 2002
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 122,751	\$ 92,492
Accounts receivable (net of allowance for doubtful accounts receivable of \$23,076 and \$23,406)	190,979	160,421
Prepaid expenses and other current assets	29,455	33,105
Total current assets	343,185	286,018
RESTRICTED CASH	12,329	11,712
PROPERTY AND EQUIPMENT - Net	329,319	330,102
GOODWILL - Net	56,731	48,963
OTHER INTANGIBLE ASSETS - Net	25,217	29,696
OTHER ASSETS	16,607	18,097
TOTAL ASSETS	\$ 783,388	\$ 724,588
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 100,770	\$ 99,653
Accrued interconnection costs	96,442	98,224
Accrued expenses and other current liabilities	91,122	71,654
Accrued interest	12,503	18,027
Current portion of long-term obligations	81,940	63,231
Total current liabilities	382,777	350,789
LONG-TERM OBLIGATIONS	517,052	537,757
OTHER LIABILITIES	1,826	3,868
Total liabilities	901,655	892,414
COMMITMENTS AND CONTINGENCIES		
SERIES C CONVERTIBLE PREFERRED STOCK, \$0.01 par value - 559,950 shares authorized; 438,853 shares issued and outstanding		32,297
STOCKHOLDERS DEFICIT:		
Preferred stock, Series A and B, \$0.01 par value - 1,895,050 shares authorized; none issued and outstanding		
Convertible preferred stock, Series C, \$0.01 par value - 559,950 shares authorized; 559,950 shares issued and outstanding; liquidation preference of \$46,725	41,514	
Common stock, \$0.01 par value - 150,000,000 shares authorized; 65,521,195 and 64,927,406 shares issued and outstanding	655	649
Additional paid-in capital	608,687	607,856
Accumulated deficit	(702,760)	(739,832)
Accumulated other comprehensive loss	(66,363)	(68,796)
Total stockholders deficit	(118,267)	(200,123)

TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$	783,388	\$	724,588
--	----	---------	----	---------

See notes to consolidated condensed financial statements.

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 37,072	\$ (16,161)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion	62,763	60,171
Non-cash compensation expense	245	
Asset impairment write-down	537	570
Loss on sale of fixed assets	804	
Cumulative effect of change in accounting principle		10,973
Provision for doubtful accounts receivable	17,377	18,847
Stock issuance - 401(k) Plan and Restricted Stock Plan	258	
Equity investment loss	688	298
Minority interest share of loss	(311)	(388)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(27,432)	
Deferred income taxes		(3,679)
Gain on early extinguishment of debt	(13,252)	(27,251)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(25,147)	14,284
(Increase) decrease in prepaid expenses and other current assets	9,243	(4,341)
(Increase) decrease in restricted cash	641	(1,672)
Decrease in other assets	2,589	448
Decrease in accounts payable	(10,320)	(6,389)
Decrease in accrued expenses, other current liabilities and other liabilities	(3,176)	(16,842)
Decrease in accrued interest	(3,041)	(3,112)
Sale of trading marketable securities		532
Net cash provided by operating activities	49,538	26,288
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(14,372)	(21,929)
Cash used for business acquisitions, net of cash acquired	(965)	(138)
Net cash used in investing activities	(15,337)	(22,067)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term obligations, net	135,925	9,509
Purchase of the Company's debt securities	(53,623)	(4,383)
Principal payments on capital leases, vendor financing and other long-term obligations	(97,397)	(23,903)
Proceeds from sale of convertible preferred stock, net	8,895	
Proceeds from sale of common stock	655	114
Net cash used in financing activities	(5,545)	(18,663)

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

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,603	2,539
NET CHANGE IN CASH AND CASH EQUIVALENTS	30,259	(11,903)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	92,492	83,953
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 122,751	\$ 72,050
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 48,147	\$ 53,564
Non-cash investing and financing activities:		
Capital lease additions	\$	\$ 139
Leased fiber capacity additions	\$ 2,938	\$ 7,991
Common stock issued for payment on capital lease liability	\$	\$ 744
Acquisition of customer list, financed by long-term obligations	\$ 8,102	\$
Net settlement of vendor obligations and receivables	\$	\$ 5,746

See notes to consolidated condensed financial statements.

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
NET INCOME (LOSS)	\$ 5,835	\$ (14,368)	\$ 37,072	\$ (16,161)
OTHER COMPREHENSIVE INCOME (LOSS) -				
Foreign currency translation adjustment	2,855	(5,090)	2,433	11,015
COMPREHENSIVE INCOME (LOSS)	\$ 8,690	\$ (19,458)	\$ 39,505	\$ (5,146)

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 for the interim periods. The results for the nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

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.

On January 1, 2002, the Company adopted Statement of Financial Accounting Standard ( SFAS ) No. 142, Goodwill and Other Intangible Assets. By June 30, 2002, the Company had completed the first step of the goodwill impairment test and had identified that an impairment condition existed. The Company completed the second step of the goodwill impairment test during the three months ended December 31, 2002. A cumulative effect of change in accounting principle of \$11.0 million is reflected in the consolidated condensed statement of operations for the nine months ended September 30, 2002.

(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. Subsequent to March 31, 2002, the Company began using the equity method of accounting for two of its subsidiaries, InterNeXt S.A. ( InterNeXt ) and Cards & Parts Telecom GmbH ( Cards & Parts ), and 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.

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

**Stock-Based Compensation** At September 30, 2003, 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. Stock-based employee compensation cost of \$0.5 million for the nine months ended September 30, 2003 under the intrinsic value method is reflected in net income. The following table illustrates the effect on income attributable to common stockholders and income per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation (in thousands, except per share amounts, and unaudited).

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2003	2002	2003	2002
Income (loss) attributable to common stockholders, as reported	\$ 5,835	\$ (14,368)	\$ 35,394	\$ (16,161)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects			503	
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of income taxes	(641)	(338)	(2,120)	(1,075)
Pro forma income (loss) attributable to common stockholders	\$ 5,194	\$ (14,706)	\$ 33,777	\$ (17,236)
Basic income (loss) per common share:				
As reported	\$ 0.09	\$ (0.22)	\$ 0.54	\$ (0.25)
Pro forma	\$ 0.08	\$ (0.23)	\$ 0.52	\$ (0.27)
Diluted income (loss) per common share:				
As reported	\$ 0.06	\$ (0.22)	\$ 0.41	\$ (0.25)
Pro forma	\$ 0.06	\$ (0.23)	\$ 0.39	\$ (0.27)
Weighted average common shares outstanding:				
Basic	65,398	64,870	65,214	64,536
Diluted	91,763	64,870	90,026	64,536

**Recent Accounting Pronouncements** In May 2003, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 requires that an issuer classify financial instruments that are within scope of SFAS No. 150 as a liability. Under prior guidance, these same instruments would be classified as equity. SFAS No. 150 was originally effective for all financial instruments entered into or modified after May 31, 2003. Otherwise, it is effective on July 1, 2003 for financial instruments entered into or modified prior to June 1, 2003. As a result of concerns over implementation and measurement issues, the FASB unanimously decided on October 29, 2003 to defer the application of SFAS No. 150 for certain non-controlling interests of limited-life entities that are consolidated in the financial statements. The Company has accordingly deferred adoption of this aspect of the standard pending further guidance and is unable at this time to determine the impact to the Company's financial position or results of operations. The adoption of the effective portions of SFAS No. 150 did not have a material effect on its consolidated financial position or results of operations.

In January 2003, FASB issued FASB Interpretation ( FIN ) No. 46, Consolidation of Variable Interest Entities. FIN No. 46 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 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 was originally scheduled to be effective in the first interim period beginning after June 15, 2003. However, on October 9, 2003, the FASB deferred the effective date of application for entities created before February 1, 2003 until the end of the first period ending after December 15, 2003 in order to allow companies more time to completely analyze those entities. Accordingly, the Company will adopt FIN No. 46 with respect to variable interest entities created prior to February 1, 2003 as of December 31, 2003. The adoption of the effective portions of FIN No. 46 did not have a material effect on its consolidated financial position or results of operations.

In November 2002, the FASB issued FIN No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN No. 45 addresses disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. FIN No. 45 also clarifies requirements related to the recognition of a liability by a



guarantor at the inception of a guarantee for the fair value of the obligations the guarantor has undertaken in issuing that guarantee. The initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for guarantees existing as of December 31, 2002. The adoption of FIN No. 45 did not have a material effect on its consolidated financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 requires the classification of gains and losses from extinguishments of debt as extraordinary items only if they meet certain criteria for such classification in APB No. 30, Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions. Any gain or loss on extinguishment of debt classified as an extraordinary item in prior periods that does not meet the criteria in APB No. 30 must be reclassified. These provisions are effective for fiscal years beginning after May 15, 2002. Additionally, SFAS No. 145 requires sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. These lease provisions are effective for transactions occurring after May 15, 2002. The Company adopted the provisions of SFAS No. 145 during the three months ended March 31, 2003. It was determined that all of the Company's gains (loss) from early extinguishment of debt for the nine months ended September 30, 2003 and the years ended December 31, 2002, 2001 and 2000 did not meet the criteria established in APB No. 30 to be classified as extraordinary items. For the three and nine months ended September 30, 2003, a loss of \$1.4 million and a gain of \$13.3 million from early extinguishment of debt, respectively, were reported as income/(loss) from continuing operations. For the nine months ended September 30, 2002, gains on the early extinguishment of debt of \$27.3 million were reclassified to income from continuing operations to maintain comparability for the reported periods.

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

(3) Acquisitions

In March 2003, the Company acquired the assets of Weslink Datalink Corporation ( Interlynx ), a Canadian Internet service provider (ISP), for \$0.6 million in cash.

In April 2003, the Company acquired 100% of Onsite Access ( Onsite ), a Canadian local service provider to business customers, for \$0.5 million in cash.

In May 2003, the Company acquired 100% of Echo OnLine Internet Inc. and subsidiaries ( Echo ), a Canadian ISP, for \$1.9 million in cash.

In June 2003, the Company acquired 100% of Telesonic Communications Inc. ( TCI ), a Canadian prepaid card company, for \$3.8 million in cash. The terms of the acquisition agreement provide for additional consideration which is expected to be in the range of \$5 million in cash to be paid over the period through May 2005 if the acquired company's results of operations exceed certain targeted levels and certain other business requirements are met. The remaining consideration will be recorded as additional cost of the acquired company in accordance with SFAS No. 141, Business Combinations.

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

The Company has accounted for all of 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 financial statements since the respective acquisition dates. The purchase prices, including direct costs, of the Company's acquisitions were allocated to the net assets acquired, including intangible assets, and liabilities assumed, based on their respective fair values at the acquisition dates. If these companies were acquired on January 1, 2003, the results of their operations would not be material to the consolidated financial statements of the Company, and therefore, pro forma financial information has not been disclosed.

### (4) Goodwill and Other Intangible Assets

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

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

	September 30, 2003		December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists	\$ 165,357	\$ (141,338)	\$ 146,394	\$ (117,079)
Other	2,344	(1,146)	1,354	(973)
Total	\$ 167,701	\$ (142,484)	\$ 147,748	\$ (118,052)

Amortization expense for customer lists and other intangible assets for the three months ended September 30, 2003 and 2002 was \$5.2 million and \$5.4 million, respectively. Amortization expense for customer lists and other intangible assets for the nine months ended September 30, 2003 and 2002 was \$15.5 million and \$15.8 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the fiscal years ending December 31, 2003, 2004, 2005, 2006 and 2007 to be approximately \$20.3 million, \$12.3 million, \$6.5 million, \$0.7 million and \$0.7 million, respectively.

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

	September 30, 2003 Carrying Amount	December 31, 2002 Carrying Amount
Goodwill	\$ 56,731	\$ 48,963

The changes in the carrying amount of goodwill for the nine months ended September 30, 2003 are as follows (in thousands and unaudited):

	North America	Europe	Asia-Pacific	Total
Balance as of January 1, 2003	\$ 40,920	\$ 1,610	\$ 6,433	\$ 48,963
Goodwill acquired during period	1,391			1,391
Effect of change in foreign currency exchange rates	5,267	170	940	6,377
Balance as of September 30, 2003	\$ 47,578	\$ 1,780	\$ 7,373	\$ 56,731

(5) Long-Term Obligations

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

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

	September 30, 2003	December 31, 2002
Obligations under capital leases	\$ 4,690	\$ 8,551
Equipment financing		72,945
Leased fiber capacity	39,620	36,107
Accounts receivable financing facility and other	45,881	42,948
Senior notes	305,682	369,318
Convertible senior notes	132,000	
Convertible subordinated debentures	71,119	71,119
Subtotal	598,992	600,988
Less: Current portion of long-term obligations	(81,940)	(63,231)
Total long-term obligations	\$ 517,052	\$ 537,757

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.

Senior Notes, Convertible Senior Notes and Convertible Subordinated Debentures

In September 2003, the Company completed the sale of \$132 million in aggregate principal amount of 3¾% convertible senior notes due 2010 ( September 2003 Convertible Senior Notes ) with semi-annual interest payments due on March 15th and September 15th, with the first payment due on March 15, 2004. 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 the table below for detail on debt repurchases since December 31, 2001.

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 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. See the table below for detail on debt repurchases since December 31, 2001.

In January 1999, the Company completed the sale of \$200 million in aggregate principal amount of 11 1/4% 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 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 11 1/4% senior notes due 2009 pursuant to the January 1999 Senior Notes indenture. During the three 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. See the table below for detail on debt repurchases since December 31, 2001.

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

On May 19, 1998, the Company completed the sale of \$150 million in aggregate principal amount of 9 7/8% 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 the Company's option any time after May 15, 2003. During the three 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. See the table below for detail on debt repurchases since December 31, 2001.

On August 4, 1997, the Company completed the sale of \$225 million in aggregate principal amount of 11¾% senior notes due 2004 ( 1997 Senior Notes ) and warrants to purchase 392,654 shares of its common stock, with semi-annual interest payments due on February 1st and August 1st. The 1997 Senior Notes are due August 1, 2004 with early redemption at the Company's option any time after August 1, 2003, at par plus accrued interest to the date of redemption. During the nine months ended September 30, 2003 and the years ended December 31, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. During the three and nine months ended September 30, 2003, the Company purchased, prior to maturity, \$10.0 million and \$53.7 million principal amount of the 1997 Senior Notes, respectively. In January 2003, the Company entered into a Supplemental Indenture to amend the terms of the 1997 Senior Notes to eliminate substantially all of the covenants relating to such notes. In June 2002, November 2002, January 2003 and February 2003, the Company retired \$181.4 million in principal amount of the 1997 Senior Notes that it had previously purchased. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. See the table below for detail on debt repurchases since December 31, 2001. See Note 11 Subsequent Events.

The following table shows the changes in the balances of the Company's senior notes, convertible senior notes and convertible subordinated debentures for the nine months ended September 30, 2003 and the year ended December 31, 2002 (unaudited).

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

For the nine months ended September 30, 2003

	Balance at December 31, 2002	Debt Issuance	Principal Purchases	Conversion to Common Stock	Warrant Amortization and Write-off	Balance at September 30, 2003	Cash Paid for Purchase of Principal
2003 3¾% Convertible Senior Notes due 2010	\$	\$ 132,000,000	\$	\$	\$	\$ 132,000,000	\$
2000 5¾% Convertible Debentures due 2007	71,119,000					71,119,000	
October 1999 12¾% Senior Notes due 2009	115,680,000					115,680,000	
January 1999 11¼% Senior Notes due 2009	116,420,000		(6,523,000)			109,897,000	4,052,414
1998 97/8% Senior Notes due 2008	50,220,000		(3,640,000)			46,580,000	2,261,350
1997 11¾% Senior Notes due 2004	86,997,727		(53,650,000)		177,247	33,524,974	46,235,500
<b>Total</b>	<b>\$ 440,436,727</b>	<b>\$ 132,000,000</b>	<b>\$ (63,813,000)</b>	<b>\$</b>	<b>\$ 177,247</b>	<b>\$ 508,800,974</b>	<b>\$ 52,549,264</b>

For the year ended December 31, 2002

	Balance at December 31, 2001	Debt Issuance	Principal Purchases	Conversion to Common Stock	Warrant Amortization and Write-off	Balance at December 31, 2002	Cash Paid for Purchase of Principal
2000 5¾% Convertible Debentures due 2007	\$ 71,119,000	\$	\$	\$	\$	\$ 71,119,000	\$
October 1999 12¾% Senior Notes due 2009	126,680,000		(11,000,000)			115,680,000	1,485,000
January 1999 11¼% Senior Notes due 2009	139,587,000		(23,167,000)			116,420,000	3,782,045
1998 97/8% Senior Notes due 2008	69,020,000		(18,800,000)			50,220,000	9,776,000
1997 11¾% Senior Notes due 2004	86,857,345				140,382	86,997,727	
<b>Total</b>	<b>\$ 493,263,345</b>	<b>\$</b>	<b>\$ (52,967,000)</b>	<b>\$</b>	<b>\$ 140,382</b>	<b>\$ 440,436,727</b>	<b>\$ 15,043,045</b>

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

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

In December 1999, the Company agreed to purchase \$23.2 million of fiber capacity from Qwest Communications, which provides the Company with an asynchronous transfer mode ( ATM ) + Internet protocol ( IP ) based international broadband backbone. The backbone is comprised of nearly 11,000 route miles of fiber optic cable in the United States and overseas as well as private Internet peering at select sites in the United States and overseas. In March 2000, the Company agreed to purchase an additional \$20.8 million of fiber capacity and as of June 30, 2001 had fulfilled the total purchase obligation. As of December 31, 2001, the Company had made cash payments of \$27.1 million and in June 2002 settled its outstanding payment obligation of \$16.4 million with Qwest for \$10 million in cash, which has been fully paid as of September 30, 2003. The Company recorded this transaction in accordance with FIN No. 26, Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease, and accordingly, the transaction resulted in a reduction of property and equipment of \$7.2 million during the three months ended June 30, 2002.

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 (7.12% at September 30, 2003). The Company further agreed to purchase \$12.2 million of additional fiber optic capacity from SCCL under the IRU agreement. As of September 30, 2003, the Company had fulfilled the total purchase obligation. At September 30,

2003 and December 31, 2002, the Company had a liability recorded under this agreement in the amount of \$18.2 million and \$18.4 million, respectively.

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity on an IRU basis in Australia for \$34.6 million (51.1 million Australian dollars ( 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 September 30, 2003 and December 31, 2002, the Company had a liability recorded in the amount of \$21.1 million and \$17.2 million, respectively.

During the year ended December 31, 2000, Cisco Systems Capital Corporation ( Cisco ) provided the Company with \$50.0 million in financing to fund the purchase of network equipment, secured by the equipment purchased. In March 2002, the Company settled its outstanding equipment lease obligations of \$15.3 million with Cisco for \$6.5 million in cash and 1,200,000 shares of its common stock. Cash of \$5.0 million was paid in March 2002, and the remaining \$1.5 million was paid in April 2003. The Company recorded this transaction in accordance with FIN No. 26, Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease, and accordingly, this transaction resulted in a reduction of property and equipment of \$8.0 million during the three months ended March 31, 2002.

During the years ended December 31, 2000 and 1999, NTFC Capital Corporation ( NTFC ) and General Electric Capital Corporation ( GECC ) provided the Company with financing in the amount of \$65.0 million in aggregate to fund the purchase of telecommunications equipment (the Equipment Facilities ), secured by the equipment purchased. During the three months ended March 31, 2003, NTFC and GECC signed an agreement with the Company to amend the terms of the Equipment Facilities to, among other things, merge the facilities into one agreement, defer principal payments otherwise due during the period from January 2002 through June 2003, decrease the interest rates to 8.0% from a range of 9.72% to 11.56%, extend the repayment period through 2006, and further secure the Equipment Facilities through liens placed on additional pieces of property, plant and equipment. Additional fees of \$2.9 million were incurred in connection with the renegotiation, which brought the effective interest rate for the new agreement to 10.27%. These amounts had been deferred and would be amortized using the effective interest method over the life of the agreement. During the three months ended September 30, 2003, the Company fully paid its outstanding borrowings of \$55.2 million utilized under the Equipment Facilities.

During the year ended December 31, 1999, Ericsson Financing Plc ( Ericsson ) provided the Company with \$35.5 million (21.3 million British pounds ( GBP )) in financing to fund the purchase of network equipment, secured by the equipment purchased. In April 2003, the Company settled its outstanding payment obligation of \$14.9 million for approximately \$10.6 million (one payment of 5.9 million GBP and one payment of 8.7 million Danish Krona), which was paid in April 2003. The Company had liabilities of \$15.2 million recorded at December 31, 2002.

#### Other

In March 2002, the Company consummated a transaction financing accounts receivable of a certain wholly-owned subsidiary with Textron Financial Inc. ( Textron ). The Company pledged \$17.8 million and \$15.5 million as collateral as of September 30, 2003 and December 31, 2002, respectively, and recorded a liability of \$15.2 million and \$14.9 million, respectively, which is included in current portion of long-term obligations as the financing is payable on demand. This financing will terminate by March 2005 and bears fees at a rate of Bloomberg BBSWIB rate plus 5.75% per annum (10.6% at September 30, 2003), plus an additional \$150,000 per annum. In July 2001, the Company consummated a transaction financing accounts receivable of its wholly-owned Canadian subsidiary, Primus Canada, with Textron Financial Canada Limited, an affiliate of Textron. The Company pledged \$14.9 million and \$15.3 million of its accounts receivable as collateral as of September 30, 2003 and December 31, 2002, respectively, and recorded a liability of \$10.5 million and \$10.4 million, respectively, which is included in current portion

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

of long-term obligations as the financing is payable on demand. This financing will terminate by March 2005 and bears fees at a rate of Canada Prime Rate plus 3.25% (7.75% at September 30, 2003), plus an additional \$296,250 per annum. These transactions with Textron collectively permit borrowings of up to \$29.8 million, depending on the level of customer receivables.

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 liability of \$7.6 million and \$9.9 million at September 30, 2003 and December 31, 2002, respectively. The remaining purchase price will be paid through a deferred payment arrangement over a two-year period, ending in December 2004, and bears no interest.

During the three months ended March 31, 2003, Primus Canada signed an agreement with The Manufacturers Life Insurance Company ( Manulife ) to fund \$14.8 million (20.0 million CAD) for acquisitions. As of September 30, 2003, \$9.6 million (13.0 million CAD) had been utilized under this facility. The funding is payable in full in March 2005 and bears an interest rate of 15.0% per annum.

(6) Convertible Preferred Stock

In December 2002, the Company signed an agreement to sell 559,950 newly-authorized shares of its Series C convertible preferred stock (the Series C Preferred ) for an aggregate purchase price of \$42 million. On December 31, 2002, the Company issued 438,853 shares of Series C Preferred for approximately \$32.3 million, net of \$0.6 million of offering costs. At a special meeting of the Company's stockholders on March 31, 2003, its stockholders voted to approve the issuance of the remaining 121,097 shares of Series C Preferred for approximately \$8.9 million in cash, net of \$0.2 million of offering costs.

Each Series C Preferred share is convertible into common stock at any time. All shares are mandatorily convertible if (i) two-thirds of the holders elect to convert or (ii) the average closing price of the Company's common stock for any period of 20 consecutive trading days exceeds three times the then effective conversion price, and all of the then outstanding shares of Series C Preferred are no longer subject to transfer restrictions as contained in, and may be sold or transferred by such Series C holders in compliance with, Rule 144(k) and Rule 145 under the Securities Act of 1933, as amended. Since March 31, 2003, each share is convertible into 40.3911 shares of common stock at a conversion price of \$1.857 per share. The preferred-to-common stock conversion ratio and the conversion price are subject to certain antidilution adjustments.

The Company issued the remaining 121,097 shares of Series C Preferred shares in April 2003. At the time of issuance, the fair value of the Company's stock was greater than the conversion price. The Company calculated a beneficial conversion feature to be \$1.4 million, which has been recorded as a deemed dividend.

On April 30, 2003, the Company's Board of Directors approved an amendment to the Company's Stockholder Rights Plan which provides if the rights issued to stockholders under the Rights Plan are triggered, the Company may exchange for each right one share of Company common stock (or 1/1000 of a share of Series B Company Preferred Stock). With this amendment, the issuance of common stock or Series B Company Preferred Stock is no longer elective on the part of the rights holder, but is elective on the part of the Company. Because the decision regarding the issuance of common stock in exchange for rights is under the control of the Company, the Series C Preferred shares are no longer considered mezzanine financing and have been reclassified to the equity section of the balance sheet as of April 30, 2003. See Note 11 Subsequent Events.

(7) Operating Segment and Related Information

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

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 September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
<b>Net Revenue</b>				
North America				
<i>United States</i>	\$ 73,309	\$ 53,346	\$ 214,121	\$ 153,427
<i>Canada</i>	57,551	40,238	152,715	122,241
<i>Other</i>	923	1,254	2,711	4,971
Total North America	131,783	94,838	369,547	280,639
Europe				
<i>United Kingdom</i>	40,217	36,523	107,117	105,656
<i>Germany</i>	12,528	14,429	40,814	50,790
<i>Netherlands</i>	31,518	22,177	116,074	49,716
<i>Other</i>	18,979	21,078	58,422	63,201
Total Europe	103,242	94,207	322,427	269,363
Asia-Pacific				
<i>Australia</i>	88,305	65,211	242,638	190,210
<i>Other</i>	4,935	6,277	14,336	16,232
Total Asia-Pacific	93,240	71,488	256,974	206,442
Total	\$ 328,265	\$ 260,533	\$ 948,948	\$ 756,444
<b>Income (Loss) From Operations</b>				
North America	\$ 8,211	\$ 190	\$ 12,102	\$ (10,706)
Europe	4,097	340	6,856	3,737
Asia-Pacific	11,713	5,322	29,600	17,448
Total	\$ 24,021	\$ 5,852	\$ 48,558	\$ 10,479
	September 30, 2003	December 31, 2002		
<b>Assets</b>				
North America				
<i>United States</i>	\$ 196,343	\$ 215,006		
<i>Canada</i>	155,597	108,247		
<i>Other</i>	7,755	7,125		
Total North America	359,695	330,378		
Europe				
<i>United Kingdom</i>	89,284	72,178		
<i>Germany</i>	19,369	25,410		
<i>Netherlands</i>	19,990	29,586		
<i>Other</i>	57,425	60,326		
Total Europe	186,068	187,500		
Asia-Pacific				
<i>Australia</i>	210,775	179,195		
<i>Other</i>	26,850	27,515		
Total Asia-Pacific	237,625	206,710		
Total	\$ 783,388	\$ 724,588		

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

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 September 30,				Nine months ended September 30,			
	2003		2002		2003		2002	
Voice	\$	278,476	\$	216,963	\$	803,572	\$	629,122
Data/Internet		33,249		27,895		93,711		85,041
VoIP		16,540		15,675		51,665		42,281
Total	\$	328,265	\$	260,533	\$	948,948	\$	756,444

### (8) Commitments and Contingencies

In March 1999, the Company purchased the common stock of London Telecom Network, Inc. and certain related entities that provide long distance telecommunications services in Canada (the LTN Companies ). In April 2001, the LTN Companies received a federal notice and, in May 2002, a provincial notice of income tax assessment disputing certain deductions from taxable income made by the LTN Companies, prior to the Company s acquisition, in the aggregate amount of \$9.7 million (13.2 million CAD), plus penalties and interest of \$5.1 million (6.8 million CAD). The Company is disputing the entire assessment. As of September 30, 2003, the Company paid \$0.9 million (1.3 million CAD) and committed to pay \$0.1 million (100,000 CAD) per month for the next twelve months subject to potential refund if the Company prevails. The Company has recorded an accrual for the amounts that management estimates to be the probable loss. The Company s ultimate legal and financial liability with respect to these proceedings cannot be estimated with certainty at this time, while an adverse result for the full amount sought or some significant percentage thereof could have a material adverse effect on its consolidated financial position and results of operations.

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 its 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 our 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 its financial results. The Company intends to defend the case vigorously. Management believes that this suit will not have a material adverse effect on the Company s consolidated financial position and results of operations.

The Company and certain of its executive officers have been 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. The 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. The Plaintiffs also named the Company and several of its executive officers (the Primus Defendants ) as co-defendants. Neither the Company, nor any of its subsidiaries/affiliates, own, or have ever owned, any interest in 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 the Plaintiffs against the Non-Primus Defendants only. The Non-Primus Defendants have filed post-trial motions seeking to reverse or reduce the jury s award, and the Plaintiffs have sought a new trial involving the Primus Defendants. On April 2, 2003, the judge denied the 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, the Plaintiffs filed an appeal in the 4th Circuit of the United States Court of Appeals regarding the Primus Defendants dismissal, which appeal is pending. The New Jersey case was filed on September 24, 2002 and includes claims against the Primus Defendants.

The Primus Defendants had moved to dismiss, and the case had been stayed pending further decision by the court

in the Virginia case on Plaintiffs' motion for a new trial. 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. In both cases, the Company intends to vigorously defend against these actions and believes that the Plaintiffs' claims against the Primus Defendants are without merit. However, the Company's ultimate legal and financial liability with respect to such legal proceedings cannot be estimated with any certainty at this time, and there is no entity insurance coverage for these claims. Accordingly, an adverse result for the full amount sought or some percentage thereof could have a material adverse effect on the Company's consolidated financial position and results of operations.

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. Management believes that any aggregate liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the Company's consolidated financial position and results of operations.

(9) Asset Impairment

The Company recorded an asset impairment of \$0.5 million and \$0.6 million for the nine months ended September 30, 2003 and 2002, respectively. The impairment in 2003 consisted of a write-off of assets related to the fax-over-IP business that was closed in the Company's Indian venture, DIL, during the three months ended March 31, 2003.

(10) 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 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 September 30, 2003, 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 and nine months ended September 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  
September 30, 2003**

**For the Nine Months Ended  
September 30, 2003**

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

	Previously Reported	As Restated	Previously Reported	As Restated
<b>Income per common share:</b>				
Basic	\$ 0.07	\$ 0.09	\$ 0.41	\$ 0.54
Diluted	\$ 0.06	\$ 0.06	\$ 0.40	\$ 0.41
Basic weighted average common shares outstanding	88,015	65,398	86,236	65,214

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.

For the three and nine months ended September 30, 2003, 0.2 million and 0.3 million shares, respectively, issuable under the Company's stock option compensation plans 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. For both the three and nine months ended September 30, 2002, 2.7 million shares issuable under the Company's stock option compensation plans, 1.4 million shares issuable upon the assumed conversion of the Company's 2000 Convertible Subordinated Debentures and warrants to purchase 0.4 million shares associated with the 1997 Senior Notes 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.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Net income (loss)	\$ 5,835	\$ (14,368)	\$ 37,072	\$ (16,161)
Accreted and deemed dividend on convertible preferred stock			(1,678)	
Income attributable to common stockholders	\$ 5,835	\$ (14,368)	\$ 35,394	\$ (16,161)
Weighted average common shares outstanding basic	65,398	64,870	65,214	64,536
Series C Preferred	22,617		21,022	
In-the-money options exercisable under stock option compensation plans	3,748		2,960	
Weighted shares convertible related to September 2003 convertible senior notes			830	
Weighted average common shares outstanding diluted	91,763	64,870	90,026	64,536
Income per common share:				
Basic	\$ 0.09	\$ (0.22)	\$ 0.54	\$ (0.25)
Diluted	\$ 0.06	\$ (0.22)	\$ 0.41	\$ (0.25)

(11) Subsequent Events

In October 2003, the Company redeemed the remaining \$33.6 million principal amount of the 1997 Senior Notes at par plus accrued interest to the date of redemption.

In October 2003, the Company filed a Form S-3 resale registration statement to satisfy certain of its obligations under a registration rights agreement that the Company entered into in connection with its recent private placement of \$132 million in aggregate principal amount of 3 ¾% September 2003 Convertible Senior Notes due September 15, 2010. This registration statement went effective on November 7, 2003.

In November 2003, the Company filed a Form S-3 resale registration statement in connection with its Series C Preferred which is currently under review by the Securities and Exchange Commission ( SEC ). The selling security holders, prior to the S-3 filing, converted 559,950 shares of convertible preferred stock into 22,616,990 shares of common stock. During a 270-day period commencing November 4, 2003, certain selling security holders' shares will be subject to the terms of a lock-up agreement with the Company, which will generally prohibit the resale of 13,540,008 of such shares.

In November 2003, the Company filed a Form S-3 shelf registration statement in the amount of \$200,000,000 which is currently under review by the SEC. When this shelf registration becomes effective, the Company may sell common stock, preferred stock, debt securities and warrants in one or more offerings up to a total dollar amount of \$200,000,000.

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 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

<b>Exhibit Number</b>	<b>Description</b>
31	Certifications.
32	Certification*.

---

\* 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.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Date: October 15, 2004

By: /s/ NEIL L. HAZARD

Neil L. Hazard  
*Executive Vice President, Chief Operating Officer and Chief Financial Officer (Principal Financial Officer)*

Date: October 15, 2004

By: /s/ TRACY BOOK LAWSON

Tracy Book Lawson  
*Vice President Corporate Controller (Principal Accounting Officer)*