PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
May 12, 2008
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2008

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)**	**54-1708481** **(I.R.S. Employer Identification No.)**
7901 Jones Branch Drive, Suite 900, **McLean, VA** **(Address of principal executive offices)**	**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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

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

	Outstanding as of
Class	**April 30, 2008**
Common Stock $0.01 par value	**142,632,540**

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
NET REVENUE	$ 226,601	$ 227,020
OPERATING EXPENSES		
Cost of revenue (exclusive of depreciation included below)	142,105	144,656
Selling, general and administrative	69,453	68,333
Depreciation and amortization	7,961	6,557
(Gain) loss on sale or disposal of assets	(2,580)	8
Total operating expenses	216,939	219,554
INCOME FROM OPERATIONS	9,662	7,466
INTEREST EXPENSE	(15,193)	(13,434)
ACCRETION ON DEBT DISCOUNT, NET	(30)	(298)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	2,310	(5,959)
INTEREST AND OTHER INCOME	965	1,496
FOREIGN CURRENCY TRANSACTION GAIN	1,707	2,974
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(579)	(7,755)
INCOME TAX EXPENSE	(2,420)	(1,005)
LOSS FROM CONTINUING OPERATIONS	(2,999)	(8,760)
INCOME FROM DISCONTINUED OPERATIONS, net of tax		160
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax		5,958
NET LOSS	$ (2,999)	$ (2,642)
BASIC AND DILUTED LOSS PER COMMON SHARE:		
Loss from continuing operations	$ (0.02)	$ (0.08)
Income from discontinued operations		0.00
Gain from sale of discontinued operations		0.06
Net loss	$ (0.02)	$ (0.02)
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	142,633	114,133

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	March 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 55,875	$ 81,282
Restricted cash	980	362
Accounts receivable (net of allowance for doubtful accounts receivable of $13,695 and $12,039)	114,489	113,588
Prepaid expenses and other current assets	20,417	28,660
Total current assets	191,761	223,892
RESTRICTED CASH	10,332	9,677
PROPERTY AND EQUIPMENT Net	143,938	144,599
GOODWILL	39,753	40,134
OTHER INTANGIBLE ASSETS Net	1,227	1,557
OTHER ASSETS	38,586	40,544
TOTAL ASSETS	$ 425,597	$ 460,403
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 65,477	$ 74,893
Accrued interconnection costs	45,236	44,911
Deferred revenue	15,737	16,513
Accrued expenses and other current liabilities	49,038	54,420
Accrued income taxes	31,342	30,791
Accrued interest	10,620	12,460
Current portion of long-term obligations	10,673	11,228
Total current liabilities	228,123	245,216
LONG-TERM OBLIGATIONS (net of premium of $4,021 and $2,528)	648,928	662,675
OTHER LIABILITIES	50	52
Total liabilities	877,101	907,943
COMMITMENTS AND CONTINGENCIES (See Note 5.)		
STOCKHOLDERS DEFICIT:		
Preferred stock: Not Designated, $0.01 par value 1,410,050 shares authorized; none issued and outstanding; Series A and B, $0.01 par value 485,000 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 300,000,000 shares authorized; 142,632,540 shares issued and outstanding	1,426	1,426
Additional paid-in capital	718,757	718,695
Accumulated deficit	(1,077,777)	(1,074,778)
Accumulated other comprehensive loss	(93,910)	(92,883)
Total stockholders deficit	(451,504)	(447,540)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 425,597	$ 460,403

See notes to consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,999)	$ (2,642)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for doubtful accounts receivable	2,828	2,892
Stock compensation expense	62	58
Depreciation and amortization	7,961	6,578
Gain on sale or disposal of assets	(2,580)	(5,950)
Accretion of debt discount	30	298
Deferred income taxes	450	
(Gain) loss on early extinguishment or restructuring of debt	(2,310)	5,959
Unrealized foreign currency transaction gain on intercompany and foreign debt	(1,501)	(3,564)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(1,818)	5,443
(Increase) decrease in prepaid expenses and other current assets	9,777	(2,605)
(Increase) decrease in other assets	342	(1,181)
Decrease in accounts payable	(10,458)	(5,596)
Decrease in accrued interconnection costs	(314)	(2,780)
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	(5,996)	2,028
Increase (decrease) in accrued income taxes	502	(154)
Decrease in accrued interest	(1,504)	(5,604)
Net cash used in operating activities	(7,528)	(6,820)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,858)	(6,391)
Sale of property and equipment	800	
Cash from disposition of business, net of cash disposed	1,765	5,527
(Increase) decrease in restricted cash	(888)	42
Net cash used in investing activities	(5,181)	(822)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of the Company s debt securities	(11,217)	
Proceeds from issuance of long-term obligations		109,275
Deferred financing costs		(6,570)
Principal payments on long-term obligations	(1,536)	(55,594)
Net cash provided by (used in) financing activities	(12,753)	47,111
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	55	93
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,407)	39,562
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	81,282	64,317

CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 55,875	$ 103,879
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 16,051	$ 18,500
Cash paid for taxes	$ 295	$ 1,302
Non-cash investing and financing activities:		
Capital lease additions	$ 35	$ 385
Business disposition proceeds in note receivable	$	$ 641

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
NET LOSS	$ (2,999)	$ (2,642)
OTHER COMPREHENSIVE LOSS		
Foreign currency translation adjustment	(1,027)	(1,449)
COMPREHENSIVE LOSS	$ (4,026)	$ (4,091)

See notes to consolidated financial statements.

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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 or Primus) 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 principles 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 three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The results for the three months ended March 31, 2007 reflect the activities of certain operations as discontinued operations (see Note 10 Discontinued Operations).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Liquidity Outlook As of March 31, 2008, the Company has $55.9 million of cash and cash equivalents. The Company believes that its existing cash and cash equivalents, will be sufficient to fund its debt service requirements, other fixed obligations (such as capital leases, vendor financing and other long-term obligations), and other cash needs for its operations for at least the next twelve months. The Company will continue to have significant debt service obligations on a mid-term and a long-term basis, as disclosed in Note 4. After recent debt buybacks, the Company has $19.5 million principal amount of 12 $^{3}/4$% Senior Notes and $8.6 million principal amount of Step Up Convertible Subordinated Debentures coming due in the second half of 2009. The Company s strategies related to meeting our 2009 obligations and other cash needs are to strengthen the balance sheet opportunistically through potential de-levering transactions and equity capital infusions; to improve the non-sales and marketing cost structure and maintain an aggressive cost management program; to focus on improving sales productivity and margin enhancements by leveraging the network assets and increasing the revenue mix in favor of higher margin growth services; and opportunistically to sell non-strategic assets and businesses and use the proceeds either to accelerate growth of high-margin products or to reduce debt. Although the Company believes that it will have sufficient liquidity to fund its obligations for the next 12 months, there can be no assurance that the Company will be successful in implementing its longer term strategies or obtain new capital at acceptable terms.

Principles of Consolidation The consolidated financial statements include the Company s accounts, its wholly-owned subsidiaries and all other subsidiaries over which the Company exerts control. All intercompany profits, transactions and balances have been eliminated in consolidation. The Company owns 90% of the common stock of Matrix Internet, S.A. (Matrix). In March 2008, the Company sold its minority equity interest in Bekkoame Internet, Inc. (Bekko). The Company used the equity method of accounting for its investment in Bekko.

Presentation of sales taxes collected The Company reports any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between the Company and a customer (including sales, use, value-added and some excise taxes) on a net basis (excluded from revenues).

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Stock-Based Compensation The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation under SFAS No. 123(R), consistent with that used for pro forma disclosures under SFAS No. 123. The Black-Scholes model incorporates various assumptions including the expected term of awards, volatility of stock price, risk-free rates of return and dividend yield. The expected term of an award is no less than the option vesting period and is based on the Company s historical experience. Expected volatility is based upon the historical volatility of the Company s stock price. The risk-free interest rate is approximated using rates available on U.S. Treasury securities with a remaining term similar to the option s expected life. The Company uses a dividend yield of zero in the Black-Scholes option valuation model as it does not anticipate paying cash dividends in the foreseeable future. The Company also had an Employee Stock Purchase Plan, which was suspended on July 27, 2006, and which allowed employees to elect to purchase stock at 85% of fair market value (determined monthly) and was considered compensatory under SFAS No. 123(R).

The Company recorded $62 thousand and $58 thousand stock-based compensation expenses for the three months ended March 31, 2008 and 2007, respectively, under guidance in SFAS No. 123(R).

The weighted average fair value at date of grant for options granted during the three months ended March 31, 2008 was $0.11 per option. No options were granted during the three months ended March 31, 2007. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	For the Three Months Ended March 31, 2008
Expected dividend yield	0%
Expected stock price volatility	96%
Risk-free interest rate	2.2%
Expected option term	4 years

As of March 31, 2008, the Company had 1.6 million unvested awards outstanding of which $0.3 million of compensation expense will be recognized over the weighted average remaining vesting period of 2.08 years.

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results may differ from these estimates. Significant estimates include allowance for doubtful accounts receivable, accrued interconnection cost disputes, the fair value of embedded derivatives, market assumptions used in estimating the fair values of certain assets and liabilities such as marketable securities and long-term obligations, the calculation used in determining the fair value of the Company s stock options required by SFAS No. 123(R), various tax contingencies, asset impairment write-downs, and purchase price allocations.

Newly Adopted Accounting Principle

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, for all financial instruments accounted for at fair value on a recurring basis. The Company does not have any non-financial instruments accounted for at fair value on a recurring basis. SFAS No. 157 establishes a new framework for measuring fair value and expands related disclosures. Broadly, the SFAS No. 157 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS No. 157 establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

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The valuation techniques required by SFAS No. 157 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

See table below for summary of the Company s financial instruments accounted for at fair value on a recurring basis:

		Fair Value as of March 31, 2008, using:		
	March 31, 2008	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 18,947	$ 18,947		
Derivative	136		$ 136	
Total	$ 19,083	$ 18,947	$ 136	

New Accounting Pronouncements

In March 2008, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging with the intent to provide users of financial statements with an enhanced understanding of the use of derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity s financial statements. SFAS No. 161 is effective for financial statements issued for fiscal years after July 1, 2009. The Company anticipates that the adoption of this standard will not have a material impact on its results of operations, financial position and cash flows.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	As of March 31, 2008			As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	$ 4,077	$ (3,027)	$ 1,050	$ 4,074	$ (2,688)	$ 1,386
Other	1,834	(1,657)	177	1,678	(1,507)	171
Total	$ 5,911	$ (4,684)	$ 1,227	$ 5,752	$ (4,195)	$ 1,557

Amortization expense for customer lists and other intangible assets for the three months ended March 31, 2008 and 2007 was $0.5 million. The Company expects amortization expense for customer lists and other intangible assets for the remainder of 2008 and the year ended December 31, 2009 to be approximately $1.1 million and $0.1 million, respectively.

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

	As of March 31, 2008	As of December 31, 2007
Goodwill	$ 39,753	$ 40,134

The changes in the carrying amount of goodwill for the three months ended March 31, 2008 are as follows (in thousands):

	United States	Canada	Asia-Pacific	Total
Balance as of January 1, 2008	$ 208	$ 27,287	$ 12,639	$ 40,134
Effect of change in foreign currency exchange rates	4	(1,099)	714	(381)
Balance as of March 31, 2008	$ 212	$ 26,188	$ 13,353	$ 39,753

4. LONG-TERM OBLIGATIONS

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

	March 31, 2008	December 31, 2007
Obligations under capital leases	$ 6,895	$ 7,171
Leased fiber capacity	4,457	4,990
Senior secured term loan facility	97,000	97,250
Financing facility	35,000	35,000
Senior notes	254,495	255,270
Senior secured notes	113,603	113,947
Exchangeable senior notes	63,363	63,363
Convertible senior notes	76,287	76,196
Step up convertible subordinated debentures	8,233	20,326
Other	268	390
Subtotal	659,601	673,903
Less: Current portion of long-term obligations	(10,673)	(11,228)
Total long-term obligations	$ 648,928	$ 662,675

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Payments of principal and interest are due as follows:

Year Ending December 31,	Vendor Financing	Senior Secured Term Loan Facility (1)	Financing Facility and Other	Senior Notes	Convertible and Exchangeable Senior Notes (2)	Step Up Convertible Subordinated Debentures	Senior Secured Notes	Total
2008 (as of March 31, 2008)	$ 5,907	$ 7,614	$ 2,467	$ 11,886	$ 4,265	$ 346	$ 15,420	$ 47,905
2009	3,370	10,070	3,188	40,781	5,713	9,332	15,420	87,874
2010	3,162	9,975	3,170	18,800	137,878		15,420	188,405
2011	44	94,250	3,170	18,800			115,920	232,184
2012	15		35,777	18,800				54,592
Thereafter			62	263,200				263,262
Total Minimum Principal & Interest Payments	12,498	121,909	47,834	372,267	147,856	9,678	162,180	874,222
Less: Amount Representing Interest	(1,146)	(24,909)	(12,566)	(117,772)	(14,282)	(1,037)	(53,970)	(225,682)
Face Value of Long-Term Obligations	11,352	97,000	35,268	254,495	133,574	8,641	108,210	648,540
Amount Representing Premium (Discount)					(964)	(408)	5,393	4,021
Add: Exchangeable Senior Notes Interest Treated as Long-Term Obligations					7,040			7,040
Book Value of Long Term Obligations	$ 11,352	$ 97,000	$ 35,268	$ 254,495	$ 139,650	$ 8,233	$ 113,603	$ 659,601

(1) For preparation of this table, we have assumed the interest rate of the Senior Secured Term Loan Facility to be 9.5%, which is the interest rate at March 31, 2008.

(2) For preparation of this table, we have shown separately the cash interest payments of PTHI s (as defined below) 5% Exchangeable Senior Notes as a portion of long-term obligations (see *Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures* below). The interest due on the 5% Exchangeable Senior Notes in 2008, 2009 and 2010 is $2.8 million, $2.8 million and $1.4 million, respectively.

The indentures governing the senior notes, senior secured notes, senior secured term loan facility, convertible senior notes, and step up convertible subordinated debentures, as well as other credit arrangements, contain certain financial and other covenants which, 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. The Company was in compliance with the above covenants at March 31, 2008.

Senior Secured Term Loan Facility

In February 2005, a direct wholly-owned subsidiary of the Company, PTHI, entered into a six-year, $100 million senior secured term loan facility (the Facility). Each borrowing made under the Facility may be, at the election of PTHI at the time of the borrowing, a London Inter-Bank Offered Rate (LIBOR) loan (which will bear interest at a rate equal to LIBOR + 6.50%), or a base rate loan (which will bear interest at a rate equal to the greater of the prime rate plus 5.50% or the federal funds effective rate plus 6.0%). The Facility contains no financial maintenance covenants. The Company borrowed $100 million under this Facility in February 2005.

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The Facility is to be repaid in 24 quarterly installments, which began on June 30, 2005, at a rate of one percent of the original principal per year over the next five years and nine months, and the remaining balance repaid on the sixth anniversary date of the Facility, with early redemption at a premium to par at PTHI s option at any time after February 18, 2006. The Facility is guaranteed by the Company and certain of PTHI s subsidiaries and is secured by certain assets of PTHI and its guarantor subsidiaries and stock pledges.

In February 2007, the Company received unanimous consent to an amendment of its existing $100 million Facility. This amendment enables IHC, a wholly-owned indirect subsidiary of the Company, to issue and have outstanding up to $200 million of existing authorized indebtedness in the form of newly authorized secured notes with a second lien security position (14 1/4% Senior Secured Notes). The amendment allowed for an increase of 1/4% to the interest rate of the Facility and adjusted the early call features.

The effective interest rate for the Facility at March 31, 2008 was 9.5%.

Financing Facility

In March 2007, the Company entered into a Senior Secured Credit Agreement (Credit Agreement) with a financial institution, to refinance an existing Canadian credit facility. The Credit Agreement provides for a $35.0 million non-amortizing loan bearing interest at a rate of LIBOR plus 425 basis points and matures in 2012. The loan proceeds were used to refinance the existing Canadian credit facility, including certain costs related to the transaction, and to finance certain capital expenditures. The Credit Agreement is secured by the assets of the Company s Canadian operations and certain guarantees. In October 2007, the Company entered into a cross-currency principal and interest rate swap agreement, a portion of which was required by the Credit Agreement, which fixed the interest rate at 9.21% starting from October 31, 2007. At March 31, 2008, the Company had an outstanding liability of $35.0 million.

Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures

In February 2007, subsequent to the effectiveness of the amendment of the Facility, IHC issued in a private transaction $57.2 million principal amount of the 14 1/4% Senior Secured Notes, in exchange for $40.7 million principal amount of the Company s outstanding October 1999 Senior Notes and $23.6 million in cash. This exchange has been accounted for as a modification of debt with a portion deemed to be a troubled debt restructuring. In March 2007, IHC also issued for cash in private transactions an additional $51.0 million principal amount of 14 1/4% Senior Secured Notes with a $0.3 million discount. Net cash proceeds from the 14 1/4% Senior Secured Notes issuance, after giving effect to expenses, discounts and fees related to all of the foregoing transactions (including the amendment of the Facility) is $69.2 million. The Company recorded $5.1 million in costs associated with the issuance of the 14 1/4% Senior Secured Notes, which have been recorded as a loss on restructuring of debt. The 14 1/4% Senior Secured Notes will mature on May 20, 2011 with early redemption at a premium to par at IHC s option at any time after February 2008. During specified periods, IHC may redeem at par up to 35% of the aggregate principal amount of the 14 1/4% Senior Secured Notes with the net cash proceeds of certain equity offerings of the Company. Accrued interest will be paid each May 31st and November 30th, beginning May 31st, 2007. The effective interest rate for the 14 1/4% Senior Secured Notes at March 31, 2008 was 12.4% (see Note 12 Guarantor/Non-Guarantor Consolidating Condensed Financial Information.)

In the second quarter 2006, the Company completed the exchange of $54.8 million principal amount of the Company s 3 3/4% convertible senior notes due 2010 (2003 Convertible Senior Notes) and $20.5 million in cash for $56.3 million principal amount of PTHI s 5% Exchangeable Senior Notes. This exchange was deemed a troubled debt restructuring, and accordingly, has been accounted for as a modification of debt, with total future cash payments of $67.6 million being recorded in long-term obligations. The Company recognized a gain on restructuring of debt of $4.8 million in connection with this exchange, including the expensing of $2.9 million of

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financing costs. The 5% Exchangeable Senior Notes mature on June 30, 2010, as a result of the Company increasing its equity (through designated transactions) in the aggregate of $25 million during June and July 2007. Interest on the 5% Exchangeable Senior Notes is paid at the rate of 5% per annum on each June 30 and December 30, beginning on December 30, 2006. Under certain circumstances, the Company may elect to make interest payments in shares of common stock, although the holders of the 5% Exchangeable Senior Notes were entitled to receive the first two semi-annual interest payments wholly in cash. The 5% Exchangeable Senior Notes are exchangeable, in the aggregate, into 46,935,833 shares of the Company s common stock at a conversion price of $1.20 per share of common stock, subject to adjustment. If the closing bid price of the Company s common stock, for at least 20 trading days in any consecutive 30 trading-day period, exceeds 150% of the conversion price then in effect, the Company may elect to exchange the senior notes for shares of the Company s common stock at the conversion price, subject to certain conditions, including that no more than 50% of the 5% Exchangeable Senior Notes may be exchanged by the Company within any 30-day period. As of March 31, 2008, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may require the Company to repurchase the 5% Exchangeable Senior Notes at which time the Company has the option to settle in cash or common stock at an adjusted conversion price. The 5% Exchangeable Senior Notes are guaranteed by PTGI (see Note 12 Guarantor/Non-Guarantor Consolidating Condensed Financial Information).

In the first quarter 2006, the Company completed the exchange of $27.4 million principal amount of the Company s 5¾% convertible subordinated debentures due 2007 (2000 Convertible Subordinated Debentures) for $27.5 million principal amount of the Company s step up convertible subordinated debentures due August 2009 (Step Up Convertible Subordinated Debentures) through two transactions. The Company recognized a gain on early extinguishment of debt of $1.5 million in connection with this exchange. The Step Up Convertible Subordinated Debentures will mature on August 15, 2009. Interest will be payable from February 27, 2006 to December 31, 2006 at the rate of 6% per annum; from January 1, 2007 to December 31, 2007 at the rate of 7% per annum; and from January 1, 2008 to maturity at the rate of 8% per annum. Accrued interest will be paid each February 15 and August 15, beginning August 15, 2006, to holders of record on the preceding February 1 and August 1, respectively. The Step Up Convertible Subordinated Debentures are convertible into the Company s common stock at a conversion price of $1.187 per share of common stock through August 15, 2009. The Indenture permits the Company, at its sole option, to require conversion if the Company s stock trades at 150% of the conversion price for at least 20 days within a 30 day period, subject to certain conditions, including that no more than 25% of the notes may be exchanged within any 30 day trading period. As of March 31, 2008, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price. During the quarter ended June 30, 2007, the Company exchanged 6,000,000 shares of the Company s common stock for the extinguishment of $5.0 million in principal amount of these convertible subordinated debentures. In accordance with SFAS No. 84, Induced Conversion of Convertible Debt, the Company recognized an induced conversion expense of $1.6 million and $0.7 million write-off of debt discount and deferred financing costs in connection with this conversion. During the first quarter of 2008, the Company made open market purchases of $13.8 million principal amount of its Step Up Convertible Subordinated Debentures, resulting in a $2.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs. The outstanding Step Up Convertible Subordinated Debentures are convertible in the aggregate into 7,279,697 shares of the Company s common stock.

At the time of issuance of the Step Up Convertible Subordinated Debentures, the Company did not have sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Accordingly, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 2003 Convertible Senior Notes were hybrid instruments with characteristics of a debt host agreement and contained embedded derivative features that had characteristics and risks that were not clearly and closely associated with the debt host. In the first quarter 2006, the conversion options were determined to be derivative instruments to be bifurcated and recorded as a current liability at fair value. In the second quarter 2006, the Company s shareholders voted to approve alternative

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proposals to authorize an amendment to the Company s Certificate of Incorporation to affect a one-for-ten reverse stock split or to authorize an amendment of the Company s Certificate of Incorporation allowing an increase of authorized common stock from 150,000,000 to 300,000,000. Either authorization ensured the Company would have the ability to control whether it has sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Therefore, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 2003 Convertible Senior Notes did not contain embedded derivative features as of the date of the shareholder vote, June 20, 2006, and added back the June 20, 2006 fair value of the embedded derivative into the debt balance. On July 27, 2006, the Board of Directors determined to increase the authorized shares of the common stock to 300,000,000.

The Company recorded a corresponding debt discount to the Step Up Convertible Subordinated Debentures and the 2003 Convertible Senior Notes in the amount of the fair value of the embedded derivative at the issue date. An additional debt discount of $1.7 million was recorded for the Step Up Convertible Subordinated Debentures to bring the carrying value to fair value. The carrying value of the Step Up Convertible Subordinated Debentures at issuance was approximately $14.3 million, and the carrying value of the 2003 Convertible Senior Notes at issuance of the Step Up Convertible Subordinated Debentures was approximately $127.8 million. The Company is accreting the difference between the face values of the Step Up Convertible Subordinated Debentures and the 2003 Convertible Senior Notes and the corresponding carrying values to interest expense under the effective interest method on a monthly basis over the lives of the Step Up Convertible Subordinated Debentures and the 2003 Convertible Senior Notes. At March 31, 2008, the carrying value of the Step Up Convertible Subordinated Debentures (face value of $8.6 million) was $8.2 million, and the carrying value of the 2003 Convertible Senior Notes (face value of $77.3 million) was $76.3 million. The effective interest rate of the Step Up Convertible Subordinated Debentures and the 2003 Convertible Senior Notes at March 31, 2008 was 11.1% and 5.4%, respectively.

In January 2004, 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 early redemption at a premium to par at PTHI s option at any time after January 15, 2009. The Company recorded $6.7 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 March 31, 2008 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. The 2004 Senior Notes are guaranteed by PTGI (see Note 12 Guarantor/Non-Guarantor Consolidating Condensed Financial Information). During the year ended December 31, 2004, the Company reduced $5.0 million principal balance of the 2004 Senior Notes through open market purchases.

In September 2003, the Company completed the sale of $132 million in aggregate principal amount of 2003 Convertible Senior Notes with semi-annual interest payments due on March 15th and September 15th. The Company recorded $5.2 million in costs associated with the issuance of the 2003 Convertible Senior Notes, which have been recorded as deferred financing costs in other assets. 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 outstanding notes are convertible in the aggregate into 8,285,603 shares of the Company s common stock. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price. In the second quarter 2006, the Company restructured $54.8 million principal amount of 2003 Convertible Senior Notes; see prior disclosure regarding the 5% Exchangeable Senior Notes within this footnote.

In October 1999, the Company completed the sale of $250 million in aggregate principal amount of 12.75% senior notes due 2009 (the October 1999 Senior Notes). The October 1999 Senior Notes are due October 15,

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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 and with an early redemption at par at the Company s option at any time after October 15, 2007. 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. During the year ended December 31, 2004, the Company retired $33.0 million principal amount of the October 1999 Senior Notes through open market purchases. During the year ended December 31, 2005, the Company exchanged 5,165,175 shares of the Company s common stock for the extinguishment of $8.6 million principal amount of these senior notes. During the quarter ended March 31, 2006, the Company exchanged 1,825,000 shares of the Company s common stock for the extinguishment of $2.5 million principal amount of these senior notes. During the first quarter 2007, the Company restructured $40.7 million principal amount of the October 1999 Senior Notes; the Company entered into a supplemental indenture, amending the terms to eliminate certain covenants. See prior disclosure regarding the 14 $^{1}/4$% Senior Secured Notes within this footnote. During the remainder of 2007, the Company retired $10.5 million principal amount of the October 1999 Senior Notes through open market purchases. In the first quarter of 2008, the Company made open market purchases of $0.8 million principal amount of its October 1999 Senior Notes, resulting in a $0.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs.

Leased Fiber Capacity

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity in Australia for 51.1 million Australian dollars (AUD) ($28.5 million at December 31, 2000) 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%. In October 2006, the Company renegotiated the payment terms of its promissory note payable to Optus Networks Pty. Limited to defer principal payments from April 2006 through December 2006 and was obligated to pay the remaining balance in three equal monthly principal payments in the first quarter 2007. In February 2007, the Company again renegotiated the payment terms of its $8.1 million (10.1 million AUD) promissory note payable to Optus Networks Pty. Limited to extend the payment schedule through December 2008 in 24 equal monthly payments. The interest rate remains 10.2%, and the interest payments continue monthly. At March 31, 2008 and December 31, 2007, the Company had a liability recorded in the amount of $4.5 million (4.9 million AUD) and $5.0 million (5.7 million AUD), respectively.

Equipment Financing and Other Long-Term Obligations

In November 2005, Primus Australia entered into a financing arrangement for network equipment. Payments are made over a five-year term ending October 2010. The effective interest rate on the current borrowing is 9.3%. At March 31, 2008 and December 31, 2007, the Company had a liability recorded under this agreement in the amount $4.7 million (5.1 million AUD) and $4.7 million (5.4 million AUD), respectively.

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5. 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 March 31, 2008 are as follows (in thousands):

Year Ending December 31,	Vendor Financing	Purchase Obligations	Operating Leases
2008 (as of March 31, 2008)	$ 5,907	$ 12,598	$ 11,940
2009	3,370	7,490	13,089
2010	3,162	3,266	10,018
2011	44	2,534	7,288
2012	15	1,567	5,692
Thereafter			12,174
Total minimum lease payments	12,498	27,455	60,201
Less: Amount representing interest	(1,146)		
	$ 11,352	$ 27,455	$ 60,201

The Company has contractual obligations to utilize an external vendor for certain customer support functions and 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. The Company made purchases under purchase commitments of $8.8 million and $32 thousand for the three months ended March 31, 2008 and 2007, respectively.

Rent expense under operating leases was $4.4 million and $3.5 million for the three months ended March 31, 2008 and 2007, respectively.

Litigation

The Company is subject to claims and legal proceedings that arise in the ordinary course of its business. 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 result from the resolution of these matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows. (See Note 2 Summary of Significant Accounting Policies).

6. SHARE-BASED COMPENSATION

The Company sponsors an employee stock compensation plan (the Equity Incentive Plan). The total number of shares of common stock authorized for issuance under the Equity Incentive Plan is 13,000,000. Under the Equity Incentive Plan, awards may be granted to key employees or consultants of the Company and its subsidiaries in the form of Incentive Stock Options, Nonqualified Stock Options or Restricted Stock Units. The Equity Incentive Plan allows the granting of options at an exercise price of not less than 100% of the stock s fair value at the date of grant and allows the grant of restricted stock units (RSUs) for no consideration. The options and RSUs vest over a period of up to three years. No option will be exercisable more than ten years from the date it is granted. On June 16, 2004, the stockholders of the Company approved amendments to the Equity Incentive Plan, including (i) renaming the employee stock option plan the Equity Incentive Plan ; (ii) expanding the forms of awards permitted to be granted, including stock appreciation rights, restricted stock awards, stock units and other equity securities, and authorizing a tax deferral feature for executive officers; (iii) prohibiting the repricing of stock options in the future without stockholder approval; and (iv) requiring vesting in full to be not less than three years for restricted stock and stock unit awards, unless accelerated following the first anniversary of the award due to the satisfaction of predetermined performance conditions.

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The Company sponsors a Director Stock Option Plan (the Director Plan) for non-employee directors. Under the Director Plan, an option is granted to each qualifying non-employee director upon election or reelection to purchase 45,000 shares of common stock, which vests in one-third increments as of the grant date and the first and second anniversaries of the grant date, over a two-year period. The option price per share is the fair market value of a share of common stock on the date the option is granted. No option will be exercisable more than five years from the date of grant. On June 16, 2004, the stockholders of the Company approved amendments to the Director Plan to (i) increase the number of shares of common stock issuable pursuant to awards under the Director Plan by 300,000 to a total of 900,000; and (ii) authorize the issuance of restricted stock (in lieu of cash compensation at the discretion of individual Directors).

A summary of stock option activity during the three months ended March 31 is as follows:

	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding Beginning of quarter	7,368,262	$ 2.09	7,919,267	$ 2.15
Granted	910,000	$ 0.36		$
Exercised		$		$
Forfeitures	(131,941)	$ 2.26	(148,455)	$ 1.81
Outstanding end of quarter	8,146,321	$ 1.89	7,770,812	$ 2.16
Eligible for exercise end of quarter	6,597,400	$ 2.21	6,600,016	$ 2.39

The following table summarizes information about stock options outstanding at March 31, 2008:

	Options Outstanding				Options Exercisable			
Range of Option Prices	Total Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value	Total Exercisable	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value
$0.36 to $0.65	1,139,834	9.13	$ 0.41	$	149,167	5.38	$ 0.61	$
$0.73 to $0.88	729,333	7.43	$ 0.79	$	510,997	7.21	$ 0.78	$
$0.90	762,656	3.27	$ 0.90	$	762,656	3.27	$ 0.90	$
$0.92	858,496	7.61	$ 0.92	$	578,578	7.61	$ 0.92	$
$0.93 to $0.99	110,000	4.88	$ 0.98	$	50,000	5.68	$ 0.97	$
$1.33 to $1.61	19,500	5.56	$ 1.47	$	19,500	5.56	$ 1.47	$
$1.65	1,498,523	4.72	$ 1.65	$	1,498,523	4.72	$ 1.65	$
$1.80 to $2.38	1,723,879	4.75	$ 1.98	$	1,723,879	4.75	$ 1.98	$
$3.03 to $6.30	1,278,500	6.13	$ 4.99	$	1,278,500	6.13	$ 4.99	$
$12.31 to $17.44	17,300	1.30	$ 15.00	$	17,300	1.30	$ 15.00	$
$31.94	8,300	1.84	$ 31.94	$	8,300	1.84	$ 31.94	$
	8,146,321	5.97	$ 1.89	$	6,597,400	5.29	$ 2.21	$

The number of unvested options expected to vest is 0.7 million shares, with a weighted average remaining life of 8.9 years, a weighted average exercise price of $0.53, and an intrinsic value of $0.

In 2007, 100,000 restricted stock units were granted, which is the only grant to date. None have vested as their vesting schedule is to vest 100% three years from grant date. The fair market value of the stock units at the grant date was $0.40 per share. In the first quarter of 2008, the Company recognized $3 thousand expense related to this grant.

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In December 1998, the Company established the 1998 Restricted Stock Plan (the Restricted Plan) to facilitate the grant of restricted stock to selected individuals (excluding executive officers and directors of the Company) who contribute to the development and success of the Company. The total number of shares of common stock that may be granted under the Restricted Plan is 750,000. The Company did not issue any restricted stock under the Restricted Plan for three months ended March 31, 2008 and 2007. As of March 31, 2008, 54,000 shares have been issued and none are considered restricted.

7. GAIN OR LOSS ON EARLY EXTINGUISHMENT OF DEBT

In the first quarter 2008, the Company made open market purchases of $0.8 million of its October 1999 Senior Notes, resulting in a $0.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs.

In the first quarter 2008, the Company made open market purchases of $13.8 million principal amount of its Step Up Convertible Subordinated Debentures, resulting in a $2.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs, discount and effective interest.

8. INCOME TAXES

The Company conducts business globally, and as a result, the Company or one or more of its subsidiaries files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world.

The following table summarizes the open tax years for each major jurisdiction:

Jurisdiction	Open Tax Years
United States Federal	2000, 2002-2007
Australia	2002-2007
Canada	2000-2007
United Kingdom	2002-2007
Netherlands	2002-2007

The Company is undergoing examination in Canada for the years 2000, 2001, and 2002 with expected completion during the second quarter 2008. The Company is undergoing an examination in the Netherlands for the years 2002, 2003, 2004, and 2005. The Company is also currently under examination in other foreign tax jurisdictions, none of which are individually material.

The Company adopted the provisions of FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. It is expected that the amount of unrecognized tax benefits, reflected in the Company s financial statements as a result of the adoption of FIN No. 48, will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company.

On an ongoing basis, the Company monitors activity in its 5% shareholder base for substantial changes in ownership as defined under Internal Revenue Code Section 382 (Section 382). In 2007 and the rest of the testing periods under Section 382, the Company has had significant activity in this shareholder base, but upon review of the 13G filings and other available data the Company believes that an ownership change did not occur during 2007 or during the three months ended March 31, 2008. If a change is to occur, the resulting Section 382 limitation would place severe limits on the Company s ability to utilize the United States net operating losses.

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9. OPERATING SEGMENT AND RELATED INFORMATION

The Company has five reportable operating segments based on management's organization of the enterprise into geographic areas United States, Canada, Europe and Asia-Pacific, with the wholesale business within each region managed as a separate global segment. 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 geographic 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 United States segment include shared corporate functions and assets, which the Company does not allocate to its other geographic segments for management reporting purposes. The wholesale business assets are indistinguishable from the respective geographic segments. Therefore, any reporting related to the wholesale business for assets, capital expenditures or other balance sheet items is impractical.

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

	Three months ended March 31,	
	2008	**2007**
Net Revenue by Geographic Region		
United States		
United States	$ 42,659	$ 45,868
Other	2,157	1,145
Total United States	44,816	47,013
Canada		
Canada	68,449	62,784
Total Canada	68,449	62,784
Europe		
United Kingdom	17,377	24,873
Germany	5,430	5,933
Netherlands	490	605
Other	15,213	14,518
Total Europe	38,510	45,929
Asia-Pacific		
Australia	74,075	70,201
Other	751	1,093
Total Asia-Pacific	74,826	71,294
Total net revenue	$ 226,601	$ 227,020
Net Revenue by Segment		
United States	$ 25,290	$ 27,393
Canada	68,449	62,659
Europe	16,286	21,059
Asia-Pacific	74,721	70,922
Wholesale	41,855	44,987
Total	$ 226,601	$ 227,020

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	Three months ended March 31, 2008	Three months ended March 31, 2007
Provision for Doubtful Accounts Receivable		
United States	$ 804	$ 604
Canada	346	756
Europe	199	(95)
Asia-Pacific	1,268	1,404
Wholesale	211	223
Total	$ 2,828	$ 2,892
Income (Loss) from Operations		
United States	$ 502	$ (3,345)
Canada	11,525	8,763
Europe	(1,554)	(1,122)
Asia-Pacific	(43)	3,771
Wholesale	(768)	(601)
Total	$ 9,662	$ 7,466
Capital Expenditures		
United States	$ 360	$ 284
Canada	2,142	4,308
Europe	467	283
Asia-Pacific	3,889	1,516
Total	$ 6,858	$ 6,391

The above capital expenditures exclude assets acquired under terms of capital lease and vendor financing obligations.

	March 31, 2008	December 31, 2007
Property and Equipment Net		
United States		
United States	$ 17,573	$ 18,430
Other	615	597
Total United States	18,188	19,027
Canada		
Canada	52,430	54,787
Total Canada	52,430	54,787
Europe		
United Kingdom	8,532	8,718
Germany	706	700
Other	1,071	970
Total Europe	10,309	10,388
Asia-Pacific		
Australia	62,853	60,233
Other	158	164

Total Asia-Pacific	63,011	60,397
Total	$ 143,938	$ 144,599

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	March 31, 2008	December 31, 2007
Assets		
United States		
United States	$ 55,493	$ 71,782
Other	5,014	5,429
Total United States	60,507	77,211
Canada		
Canada	149,653	166,817
Total Canada	149,653	166,817
Europe		
United Kingdom	22,286	21,434
Germany	6,113	5,803
Other	53,479	52,428
Total Europe	81,878	79,665
Asia-Pacific		
Australia	129,543	132,948
Other	4,016	3,762
Total Asia-Pacific	133,559	136,710
Total	$ 425,597	$ 460,403

The Company offers three main products voice, data/Internet and VOIP in all of our segments. Net revenue information with respect to the Company's products is as follows (in thousands):

	For the Three Months Ended March 31,	
	2008	**2007**
Voice	$ 144,247	$ 153,735
Data/Internet	47,415	43,279
VOIP	34,939	30,006
Total	$ 226,601	$ 227,020

10. DISCONTINUED OPERATIONS

In August 2007, the Company sold its 51% interest in its German telephone installation system subsidiaries. The sale price was $0.8 million (0.6 million Euros), which included $0.5 million (0.4 million Euros) in cash and $0.3 million (0.2 million Euros) for payment of outstanding intercompany debt. For the intercompany debt payment, the Company received $0.1 million (0.1 million Euros) in cash at closing. The balance owing is represented by a note receivable and will be paid in fifteen equal monthly installment payments. As a result, the Company recorded a $0.2 million gain from sale of assets. Net assets held for sale were $0.6 million at the closing date.

In February 2007, the Company sold its Australian domain name registry and web hosting subsidiary, Planet Domain. The sale price was $6.5 million ($8.3 million AUD). The Company received $5.5 million in net cash proceeds from the transaction after closing adjustments. As a result, the Company recorded a $6.0 million gain from sale of assets. The net assets of Planet Domain were $0.2 million at the closing date.

As a result of these events, the Company s consolidated financial statements reflect the discontinued German subsidiary and Planet Domain operations as discontinued operations for the three months ended

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March 31, 2007. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income from discontinued operations.

Summarized operating results of the discontinued German subsidiary and Planet Domain operations for the three months ended March 31, 2008 and 2007 are as follows (in thousands):

	For the Three Month Ended March 31, 2007	
Net revenue	$	1,536
Operating expenses		1,374
Income from operations		162
Interest expense		(4)
Interest income and other income		2
Income from discontinued operations	$	160

11. BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE

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

Diluted income per common share adjusts basic income per common share for the effects of potentially dilutive common share 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 conversion of its 5% Exchangeable Senior Notes, the Step Up Convertible Subordinated Debentures, the 2003 Convertible Senior Notes and the 2000 Convertible Subordinated Debentures.

The Company had no dilutive common share equivalents during the three months ended March 31, 2008. The following could potentially dilute income per common share in the future but were excluded from the calculation of diluted loss per common share for the three months ended March 31, 2008 due to their antidilutive effects:

8.1 million shares issuable under the Company s stock option compensation plans,

46.9 million shares issuable upon conversion of the 5% Exchangeable Senior Notes,

7.3 million shares issuable upon the conversion of the Step Up Convertible Subordinated Debentures, and

8.3 million shares issuable upon conversion of the 2003 Convertible Senior Notes.

The Company had no dilutive common share equivalents during the three months ended March 31, 2007. The following could potentially dilute income per common share in the future but were excluded from the calculation of diluted loss per common share for the three months ended March 31, 2007 due to their antidilutive effects:

7.8 million shares issuable under the Company s stock option compensation plans, 46.9 million shares issuable upon conversion of the 5% Exchangeable Senior Notes,

23.2 million shares issuable upon the conversion of the Step Up Convertible Subordinated Debentures,

8.3 million shares issuable upon conversion of the 2003 Convertible Senior Notes, and

0.2 million shares issuable upon the conversion of the 2000 Convertible Subordinated Debentures.

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12. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Subsequent to the issuance of the 2007 consolidated financial statements, the Company determined that its 2007 disclosures of consolidating financial information incorrectly excluded the intercompany interest and related accrued intercompany receivables and payables that resulted from three intercompany loans between Primus Telecommunications IHC, Inc. (IHC), Primus Telecommunications Group, Incorporated (PTGI) and Primus Telecommunications Holding, Inc. (PTHI). The effects of this correction on the 2007 consolidating condensed financial statements are shown in the table below. The consolidating condensed statements of operations and statements of cash flows for the three months ended March 31, 2007, and the consolidating condensed balance sheets at December 31, 2007 contained herein have been restated to include the effects of the adjustments shown in the tables below as increases (decreases) in the effected line items to correctly reflect intercompany interest charged by IHC to PTGI and PTHI on intercompany notes issued in 2007. The effects of this correction on the consolidating condensed statements of operations and cash flows for the year ended December 31, 2007 and the quarters ended June 30, 2007 and September 30, 2007 will be presented in future filings.

	PTGI	PTHI	Other	PTGI	PTHI	Other
	For the three months ended March 31, 2007			For the year ended December 31, 2007		
Statements of Operations:						
Intercompany interest	$ (444)	$ (261)	$ 705	$ (4,037)	$ (7,881)	$ 11,918
Equity in net income (loss) of subsidiaries	$ 444	$ 705	$	$ 4,037	$ 11,918	$
Net income	$	$ 444	$ 705	$	$ 4,037	$ 11,918
Statements of Cash Flows:						
Net cash used in operating activities	$ (444)	$ (261)	$ 705	$ (4,037)	$ (7,881)	$ 11,918
Net cash provided by investing activities	444	261		4,037	7,881	
Net cash provided by (used in) financing activities			(705)			(11,918)
Net change in cash and cash equivalents	$	$	$	$	$	$

	PTGI	PTHI	Other
	December 31, 2007		
Balance sheets:			
Investment in subsidiaries	$ 4,037	$ 11,918	$
Intercompany payable	$ 4,037	$ 7,881	$ (11,918)
Total stockholders equity (deficit)	$	$ 4,037	$ 11,918

	PTGI	IHC	Guarantor Subsidiaries	PTGI	IHC	Guarantor Subsidiaries
	For the three months ended March 31, 2007			For the year ended December 31, 2007		
Statements of Operations:						
Intercompany interest	$ (444)	$ 705	$ (261)	$ (4,037)	$ 11,918	$ (7,881)
Equity in net income (loss) of subsidiaries	$ 444	$	$ 705	$ 4,037	$	$ 11,918
Net income	$	$ 705	$ 444	$	$ 11,918	$ 4,037
Statements of Cash Flows:						
Net cash used in operating activities	$ (444)	$ 705	$ (261)	$ (4,037)	$ 11,918	$ (7,881)
Net cash provided by investing activities	444		261	4,037		7,881
Net cash provided by (used in) financing activities		(705)			(11,918)	
Net change in cash and cash equivalents	$	$	$	$	$	$

	PTGI	IHC	Guarantor Subsidiaries
	December 31, 2007		
Balance sheets:			
Intercompany receivable	$	$ 11,918	$
Investment in subsidiaries	$ 4,037	$	$ 11,918
Intercompany payable	$ 4,037	$	$ 7,881
Total stockholders equity (deficit)	$	$ 11,918	$ 4,037

In each consolidating presentation, the above described changes are completely offset by corresponding increases in the elimination entries. Accordingly, these changes have no effect on the Company s consolidated financial statements.

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The consolidating condensed statement of cash flows for the quarter ended March 31, 2007 has been restated to correct the presentation of transactions that are settled, on a net basis, through the Company s intercompany payables and receivables between PTGI (parent) and its subsidiaries and between PTHI and its subsidiaries. The Company had previously presented all such transactions as operating activities. Certain of these transactions should have been presented as investing and financing activities. Accordingly, the previous presentation of the statements of cash flows for the quarter ended March 31, 2007 as contained in this Note have been corrected to add the lines entitled Proceeds from intercompany balance to cash flows from investing activities and Proceeds from (payments on) intercompany balance to cash flows from financing activities. In each consolidating presentation, the above described changes are completely offset by corresponding increases in the elimination entries. Accordingly, these changes have no effect on the Company s consolidated financial statements.

Consolidating Financial Statements for PTHI Debt Issuances

PTHI s 2004 Senior Notes and 5% Exchangeable Senior Notes are fully and unconditionally guaranteed by PTGI on a senior basis as of March 31, 2008. PTGI has a 100% ownership in PTHI and no direct subsidiaries other than PTHI. Accordingly, the following consolidating condensed financial information as of March 31, 2008 and 2007 are included for (a) PTGI on a stand-alone basis; (b) PTHI on a stand-alone basis; (c) PTGI s indirect non-guarantor subsidiaries on a combined basis; and (d) PTGI on a consolidated basis.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended March 31, 2008				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
NET REVENUE	$	$	$ 226,601	$	$ 226,601
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			142,105		142,105
Selling, general and administrative	1,272	1,728	66,453		69,453
Depreciation and amortization			7,961		7,961
Loss on sale or disposal of assets			(2,580)		(2,580)
Total operating expenses	1,272	1,728	213,939		216,939
INCOME (LOSS) FROM OPERATIONS	(1,272)	(1,728)	12,662		9,662
INTEREST EXPENSE	(1,917)	(7,910)	(5,366)		(15,193)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(375)		345		(30)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	2,209		101		2,310
INTEREST AND OTHER INCOME	10		955		965
FOREIGN CURRENCY TRANSACTION GAIN	1,296	369	42		1,707
INTERCOMPANY INTEREST	(347)	(3,393)	3,740		
MANAGEMENT FEE		1,943	(1,943)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(396)	(10,719)	10,536		(579)
INCOME TAX EXPENSE	(84)	(471)	(1,865)		(2,420)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(480)	(11,190)	8,671		(2,999)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(2,519)	8,671		(6,152)	
NET INCOME (LOSS)	$ (2,999)	$ (2,519)	$ 8,671	$ (6,152)	$ (2,999)

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended March 31, 2007				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
NET REVENUE	$	$	$ 227,020	$	$ 227,020
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			144,656		144,656
Selling, general and administrative	1,256	3,717	63,360		68,333
Depreciation and amortization			6,557		6,557
Loss on sale or disposal of assets			8		8
Total operating expenses	1,256	3,717	214,581		219,554
GAIN (LOSS) FROM OPERATIONS	(1,256)	(3,717)	12,439		7,466
INTEREST EXPENSE	(3,397)	(7,812)	(2,225)		(13,434)
ACCRETION ON DEBT DISCOUNT	(400)		102		(298)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT			(5,959)		(5,959)
INTEREST AND OTHER INCOME	286		1,210		1,496
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	5,951	(2,422)	(555)		2,974
INTERCOMPANY INTEREST	452	(261)	(191)		
MANAGEMENT FEE		2,013	(2,013)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	1,636	(12,199)	2,808		(7,755)
INCOME TAX EXPENSE	75		(1,080)		(1,005)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	1,711	(12,199)	1,728		(8,760)
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	(4,353)	7,846		(3,493)	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(2,642)	(4,353)	1,728	(3,493)	(8,760)
INCOME FROM DISCONTINUED OPERATIONS, net of tax			160		160
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax			5,958		5,958
NET INCOME (LOSS)	$ (2,642)	$ (4,353)	$ 7,846	$ (3,493)	$ (2,642)

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	March 31, 2008				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 1,870	$ (29)	$ 54,034	$	$ 55,875
Restricted cash			980		980
Accounts receivable			114,489		114,489
Prepaid expenses and other current assets	215	4	20,198		20,417
Total current assets	2,085	(25)	189,701		191,761
INTERCOMPANY RECEIVABLES	96,229	1,074,978		(1,171,207)	
INVESTMENTS IN SUBSIDIARIES	1,858	(642,504)		640,646	
RESTRICTED CASH			10,332		10,332
PROPERTY AND EQUIPMENT Net			143,938		143,938
GOODWILL			39,753		39,753
OTHER INTANGIBLE ASSETS Net			1,227		1,227
OTHER ASSETS	2,110	6,354	30,122		38,586
TOTAL ASSETS	$ 102,282	$ 438,803	$ 415,073	$ (530,561)	$ 425,597
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	$ 833	$ 30	64,614	$	$ 65,477
Accrued interconnection costs			45,236		45,236
Deferred revenue			15,737		15,737
Accrued expenses and other current liabilities	(150)	440	48,748		49,038
Accrued income taxes	398	1,523	29,421		31,342
Accrued interest	1,370	3,994	5,256		10,620
Current portion of long-term obligations		3,816	6,857		10,673
Total current liabilities	2,451	9,803	215,869		228,123
INTERCOMPANY PAYABLES	447,320	35,595	688,292	(1,171,207)	
LONG-TERM OBLIGATIONS (net of premium of $4,021)	104,015	391,547	153,366		648,928
OTHER LIABILITIES			50		50
Total liabilities	553,786	436,945	1,057,577	(1,171,207)	877,101
COMMITMENTS AND CONTINGENCIES					
STOCKHOLDERS EQUITY (DEFICIT):					
Common stock	1,426				1,426
Additional paid-in capital	718,757	1,161,930	305,844	(1,467,774)	718,757
Accumulated deficit	(1,077,777)	(1,066,962)	(863,943)	1,930,905	(1,077,777)
Accumulated other comprehensive loss	(93,910)	(93,110)	(84,405)	177,515	(93,910)
Total stockholders equity (deficit)	(451,504)	1,858	(642,504)	640,646	(451,504)

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 102,282	$ 438,803	$ 415,073	$ (530,561)	$ 425,597

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

			December 31, 2007		
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 1,299	$ (35)	$ 80,018	$	$ 81,282
Restricted cash			362		362
Accounts receivable			113,588		113,588
Prepaid expenses and other current assets	308		28,352		28,660
Total current assets	1,607	(35)	222,320		223,892
INTERCOMPANY RECEIVABLES	88,536	1,089,076		(1,177,612)	
INVESTMENTS IN SUBSIDIARIES	5,404	(650,148)		644,744	
RESTRICTED CASH			9,677		9,677
PROPERTY AND EQUIPMENT Net			144,599		144,599
GOODWILL			40,134		40,134
OTHER INTANGIBLE ASSETS Net			1,557		1,557
OTHER ASSETS	2,389	7,095	31,060		40,544
TOTAL ASSETS	$ 97,936	$ 445,988	$ 449,347	$ (532,868)	$ 460,403
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	$ 805	$ 407	73,681	$	$ 74,893
Accrued interconnection costs			44,911		44,911
Deferred revenue			16,513		16,513
Accrued expenses and other current liabilities	207	1,225	52,988		54,420
Accrued income taxes	306	1,522	28,963		30,791
Accrued interest	2,388	8,701	1,371		12,460
Current portion of long-term obligations		3,816	7,412		11,228
Total current liabilities	3,706	15,671	225,839		245,216
INTERCOMPANY PAYABLES	424,978	33,116	719,518	(1,177,612)	
LONG-TERM OBLIGATIONS (net of premium of $2,528)	116,792	391,797	154,086		662,675
OTHER LIABILITIES			52		52
Total liabilities	545,476	440,584	1,099,495	(1,177,612)	907,943
COMMITMENTS AND CONTINGENCIES					
STOCKHOLDERS EQUITY (DEFICIT):					
Common stock	1,426				1,426
Additional paid-in capital	718,695	1,161,930	305,844	(1,467,774)	718,695
Accumulated deficit	(1,074,778)	(1,064,443)	(872,614)	1,937,057	(1,074,778)
Accumulated other comprehensive loss	(92,883)	(92,083)	(83,378)	175,461	(92,883)
Total stockholders equity (deficit)	(447,540)	5,404	(650,148)	644,744	(447,540)

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 97,936	$ 445,988	$ 449,347	$ (532,868)	$ 460,403

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For Three Months Ended March 31, 2008				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$ (2,999)	$ (2,519)	$ 8,671	$ (6,152)	$ (2,999)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Provision for doubtful accounts receivable			2,828		2,828
Stock compensation expense		62			62
Depreciation and amortization			7,961		7,961
Gain on sale or disposal of assets			(2,580)		(2,580)
Accretion of debt (premium) discount	375		(345)		30
Equity in net (income) loss of subsidiary	2,519	(8,671)		6,152	
Deferred income taxes		450			450
Gain on early extinguishment or restructuring of debt	(2,209)		(101)		(2,310)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(1,304)	(349)	152		(1,501)
Changes in assets and liabilities, net of acquisitions:					
Increase in accounts receivable			(1,818)		(1,818)
(Increase) decrease in prepaid expenses and other current assets	92	(4)	9,689		9,777
(Increase) decrease in other assets	215	291	(164)		342
Increase (decrease) in accounts payable	28	(378)	(10,108)		(10,458)
Decrease in accrued interconnection costs			(314)		(314)
Decrease, net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	(357)	(792)	(4,847)		(5,996)
Increase in accrued income taxes	92	1	409		502
Increase (decrease) in accrued interest	(681)	(4,707)	3,884		(1,504)
Net cash provided by (used in) operating activities	(4,229)	(16,616)	13,317		(7,528)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment			(6,858)		(6,858)
Sale of property and equipment			800		800
Cash from disposition of business, net of cash disposed			1,765		1,765
Increase in restricted cash			(888)		(888)
Proceeds from intercompany balance	16,017	9,799		(25,816)	
Net cash provided by (used in) investing activities	16,017	9,799	(5,181)	(25,816)	(5,181)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Purchase of the Company s debt securities	(11,217)				(11,217)
Principal payments on long-term obligations		(250)	(1,286)		(1,536)
Proceeds from (payments on) intercompany balance		7,073	(32,889)	25,816	
Net cash provided by (used in) financing activities	(11,217)	6,823	(34,175)	25,816	(12,753)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			55		55
NET CHANGE IN CASH AND CASH EQUIVALENTS	571	6	(25,984)		(25,407)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,299	(35)	80,018		81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,870	$ (29)	$ 54,034	$	$ 55,875

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For the Three Months Ended March 31, 2007				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net Income (loss)	$ (2,642)	$ (4,353)	$ 7,846	$ (3,493)	$ (2,642)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Provision for doubtful accounts receivable			2,892		2,892
Stock compensation expense		58			58
Depreciation and amortization			6,578		6,578
Gain on sale or disposal of assets			(5,950)		(5,950)
Accretion of debt (premium) discount	400		(102)		298
Equity in net (income) loss of subsidiary	4,353	(7,846)		3,493	
Loss on early extinguishment or restructuring of debt			5,959		5,959
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	(5,975)	&nb			