

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

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q/A

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

For the quarterly period ended March 31, 2004

OR

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

Commission File No. 0-29092

# PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**1700 Old Meadow Road, Suite 300,  
McLean, VA**

(Address of principal executive offices)

**54-1708481**

(I.R.S. Employer Identification No.)

**22102**

(Zip Code)

**(703) 902-2800**

(Registrant's telephone number, including area code)

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

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

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

**Class**  
Common Stock \$.01 par value

**Outstanding as of  
September 30, 2004**  
89,863,126



**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**EXPLANATORY NOTE**

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

1. Amend the information contained in Note 9 to the consolidated condensed financial statements included in Part I, Item 1 of the Company's Form 10-Q for the quarterly period ended March 31, 2004 as originally filed with the Securities and Exchange Commission on May 10, 2004 (the Quarterly Report). Note 9 is hereby restated to reflect the capital contribution of certain of the Company's intercompany receivables and payables balances to the Company's wholly owned subsidiary, Primus Telecommunications Holding, Inc. ( PTHI ), which occurred in connection with PTHI's issuance of 8% senior notes, which are guaranteed by the Company, in January 2004. This amendment is solely due to intercompany arrangements required for disclosure in Note 9.

Concurrently, the Company is filing its amended quarterly report on Form 10-Q/A for the quarter ended June 30, 2004 to reflect the amended capital contribution.

2. Amend basic weighted average common shares outstanding and basic and diluted income per common share accordingly, disclosed in the consolidated condensed financial statements included in Part I, Item 1 of the Quarterly Report. The prior year quarterly period ended March 31, 2003, as presented on the statement of operations and in the notes to the consolidated condensed financial statements, is hereby restated to reflect the removal of the Series C convertible preferred stock from the basic weighted average common shares outstanding as it does not meet the definition of a participating security. Because the Series C Preferred was deemed to be non-participating, the shares are assumed to be converted into common shares and the accreted and deemed dividend on convertible preferred stock is removed from the calculation of diluted income per common share. Basic and diluted income per common share were restated accordingly. There is no impact on previously reported net income for the three-month period ended March 31, 2003 nor on the statement of operations for the three-month period ended March 31, 2004.

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

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

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

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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, |            |
|---|------------------------------|------------|
|   | 2004                         | 2003*      |
| NET REVENUE   | \$ 348,023                   | \$ 300,443 |
| OPERATING EXPENSES  |                              |            |
| Cost of revenue (exclusive of depreciation included below)    | 209,657                      | 190,023    |
| Selling, general and administrative                           | 94,317                       | 77,625     |
| Depreciation and amortization                                 | 23,507                       | 20,335     |
| Asset impairment write-down                                   |                              | 537        |
| Total operating expenses                                      | 327,481                      | 288,520    |
| INCOME FROM OPERATIONS  | 20,542                       | 11,923     |
| INTEREST EXPENSE  | (15,079 )                    | (15,377 )  |
| GAIN(LOSS) ON EARLY EXTINGUISHMENT OF DEBT                    | (14,193 )                    | 6,653      |
| INTEREST INCOME AND OTHER INCOME                              | 736                          | 282        |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                      | (1,132 )                     | 10,053     |
| INCOME (LOSS) BEFORE INCOME TAXES                             | (9,126 )                     | 13,534     |
| INCOME TAX EXPENSE  | (929 )                       | (2,333 )   |
| NET INCOME (LOSS)   | (10,055 )                    | 11,201     |
| ACCREDITED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK |                              | (322 )     |
| INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS             | \$ (10,055 )                 | \$ 10,879  |
| INCOME (LOSS) PER COMMON SHARE:                               |                              |            |
| Basic   | \$ (0.11 )                   | \$ 0.17 *  |
| Diluted   | \$ (0.11 )                   | \$ 0.13    |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:                   |                              |            |
| Basic   | 88,770                       | 65,083 *   |
| Diluted   | 88,770                       | 83,925     |

\* As restated, see Note 8.

See notes to consolidated condensed financial statements.

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

|   | March 31,<br>2004 | December 31,<br>2003 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| <b>CURRENT ASSETS:</b>  |                   |                      |
| Cash and cash equivalents   | \$ 75,532         | \$ 64,066            |
| Accounts receivable (net of allowance for doubtful accounts receivable of \$19,365 and \$20,975)  | 197,056           | 200,817              |
| Prepaid expenses and other current assets   | 39,309            | 36,930               |
| Total current assets  | 311,897           | 301,813              |
| RESTRICTED CASH   | 12,525            | 12,463               |
| PROPERTY AND EQUIPMENT Net  | 334,964           | 341,167              |
| GOODWILL Net  | 70,927            | 59,895               |
| OTHER INTANGIBLE ASSETS Net   | 28,239            | 22,711               |
| OTHER ASSETS  | 18,395            | 13,115               |
| TOTAL ASSETS  | \$ 776,947        | \$ 751,164           |
| <b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>   |                   |                      |
| <b>CURRENT LIABILITIES:</b>   |                   |                      |
| Accounts payable  | \$ 101,506        | \$ 108,615           |
| Accrued interconnection costs   | 86,294            | 89,993               |
| Accrued expenses and other current liabilities  | 73,148            | 69,456               |
| Accrued income taxes  | 21,538            | 22,387               |
| Accrued interest  | 10,571            | 12,852               |
| Current portion of long-term obligations  | 21,594            | 24,385               |
| Total current liabilities   | 314,651           | 327,688              |
| LONG-TERM OBLIGATIONS   | 565,696           | 518,066              |
| OTHER LIABILITIES   | 1,620             | 1,776                |
| Total liabilities   | 881,967           | 847,530              |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                   |                      |
| <b>STOCKHOLDERS DEFICIT:</b>  |                   |                      |
| Preferred stock: Series A and B, \$0.01 par value 1,895,050 shares authorized; none issued and outstanding; Series C, \$0.01 par value 559,950 shares authorized; none issued and outstanding |                   |                      |
| Common stock, \$0.01 par value 150,000,000 shares authorized; 88,883,477 and 88,472,546 shares issued and outstanding   | 889               | 885                  |
| Additional paid-in capital  | 651,874           | 651,159              |
| Accumulated deficit   | (695,132 )        | (685,077 )           |
| Accumulated other comprehensive loss  | (62,651 )         | (63,333 )            |
| Total stockholders deficit  | (105,020 )        | (96,366 )            |
| TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT  | \$ 776,947        | \$ 751,164           |

See notes to consolidated condensed financial statements.

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

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2004</b>                         | <b>2003</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                     |             |
| Net income (loss)  | \$ (10,055 )                        | \$ 11,201   |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:                       |                                     |             |
| Provision for doubtful accounts receivable   | 2,825                               | 6,756       |
| Stock issuance 401(k) Plan and Restricted Stock Plan   |                                     | 258         |
| Depreciation, amortization and accretion   | 23,507                              | 20,353      |
| Asset impairment write-down  |                                     | 537         |
| Equity investment loss   | 13                                  | 39          |
| Gain (loss) on early extinguishment of debt  | 14,193                              | (6,653 )    |
| Minority interest share of income  | (132 )                              | (88 )       |
| Unrealized foreign currency transaction gain on intercompany and foreign debt                                  | 835                                 | (10,617 )   |
| Changes in assets and liabilities, net of acquisitions:  |                                     |             |
| (Increase) decrease in accounts receivable   | 1,466                               | (16,373 )   |
| (Increase) decrease in prepaid expenses and other current assets   | (1,461 )                            | 1,519       |
| Decrease in restricted cash  |                                     | 906         |
| (Increase) decrease in other assets  | (1,126 )                            | 773         |
| Increase (decrease) in accounts payable  | (7,663 )                            | 8,160       |
| Increase (decrease) in accrued expenses, accrued income taxes, other current liabilities and other liabilities | (6,554 )                            | 5,955       |
| Decrease in accrued interest   | (2,269 )                            | (2,623 )    |
| Net cash provided by operating activities  | 13,579                              | 20,103      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                     |             |
| Purchase of property and equipment   | (9,773 )                            | (4,972 )    |
| Cash used for business acquisitions, net of cash acquired  | (17,579 )                           | (81 )       |
| Net cash used in investing activities  | (27,352 )                           | (5,053 )    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                     |             |
| Proceeds from issuance of long-term obligations, net   | 233,000                             | 4,743       |
| Purchase of the Company's debt securities  | (192,259 )                          | (36,236 )   |
| Principal payments on capital leases, vendor financing and other long-term obligations                         | (16,196 )                           | (9,681 )    |
| Proceeds from sale of convertible preferred stock, net   |                                     | 8,956       |
| Proceeds from sale of common stock   | 718                                 | 59          |
| Net cash provided by (used in) financing activities  | 25,263                              | (32,159 )   |
| <b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>   | (24 )                               | 46          |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>   | 11,466                              | (17,063 )   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>  | 64,066                              | 92,492      |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>  | \$ 75,532                           | \$ 75,429   |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>  |                                     |             |
| Cash paid for interest   | \$ 16,810                           | \$ 17,525   |
| Non-cash investing and financing activities:   |                                     |             |
| Leased fiber capacity additions  | \$ 2,122                            | \$          |
| Business acquisition, financed by long-term obligations  | \$                                  | \$ 6,038    |

See notes to consolidated condensed financial statements.

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

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2004</b>                         | <b>2003</b> |
| NET INCOME (LOSS)                       | \$ (10,055 )                        | \$ 11,201   |
| OTHER COMPREHENSIVE INCOME (LOSS)       |                                     |             |
| Foreign currency translation adjustment | 682                                 | (1,113 )    |
| COMPREHENSIVE INCOME (LOSS)             | \$ (9,373 )                         | \$ 10,088   |

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 three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

*Stock-Based Compensation* At March 31, 2004, the Company had three stock-based employee compensation plans. The Company uses the intrinsic value method to account for those plans under the recognition and measurement principles of Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations. The following table illustrates the effect on income attributable to common stockholders and income per share if the Company had applied

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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).

|   | <b>For the three months ended</b> |             |
|---|-----------------------------------|-------------|
|   | <b>March 31,</b>                  |             |
|   | <b>2004</b>                       | <b>2003</b> |
| Income (loss) attributable to common stockholders, as reported  | \$ (10,055 )                      | \$ 10,879   |
| Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of income taxes | (539 )                            | (666 )      |
| Pro forma income (loss) attributable to common stockholders   | \$ (10,594 )                      | \$ 10,213   |
| Basic income (loss) per common share:   |                                   |             |
| As reported   | \$ (0.11 )                        | \$ 0.17     |
| Pro forma   | \$ (0.12 )                        | \$ 0.16     |
| Diluted income (loss) per common share:   |                                   |             |
| As reported   | \$ (0.11 )                        | \$ 0.13     |
| Pro forma   | \$ (0.12 )                        | \$ 0.13     |
| Weighted average common shares outstanding:   |                                   |             |
| Basic   | 88,770                            | 65,083      |
| Diluted   | 88,770                            | 83,925      |

### ***Recent Accounting Pronouncements***

In January 2003, FASB issued FASB Interpretation ( FIN ) No. 46(R), Consolidation of Variable Interest Entities. FIN No. 46(R) clarifies the application of Accounting Research Bulletin ( ARB ) No. 51, Consolidated Financial Statements, to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46(R) applies immediately to variable interest entities created after January 31, 2003, or in which the Company obtains an interest after that date. With respect to variable interest entities created prior to February 1, 2003, FIN No. 46(R) was 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 adopted FIN No. 46(R) 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(R) did not have a material effect on its consolidated financial position or results of operations.

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

### **3. ACQUISITIONS**

In February 2004, the Company's wholly-owned subsidiary in Australia, Primus Telecommunications Pty Ltd ( Primus Telecom ) acquired the Internet service and interactive media businesses of AOL/7 Pty Ltd ( AOL/7 ). AOL/7 was a joint venture between America Online Inc. (AOL), a wholly-owned subsidiary of Time Warner Inc., AAPT Limited, a unit of the Telecom New Zealand Group, and Seven Network Limited. Primus Telecom acquired 100% of the issued stock of AOL/7 which provides the Company with the customer base, content, content development and online advertising businesses, as well as a license for the AOL brand in Australia, for a total consideration of approximately \$18 million USD, paid in cash. There are no contingent payments related to this acquisition.

The Company has accounted for this acquisition using the purchase method of accounting, and accordingly, the net assets and results of operations of the acquired company have been included in the Company's financial statements since the acquisition date. The initial purchase price, including direct costs, of the Company's acquisition was allocated to the net assets acquired, including intangible assets, and liabilities assumed, based on their fair values at the acquisition date. As of March 31, 2004, the allocation has not been finalized in accordance with SFAS No. 141 Business Combinations, due to the timing of the acquisition. Had this company been acquired on January 1, 2004, the results of its operations would not be material to the consolidated financial statements of the Company, and therefore, pro forma financial information has not been presented.

#### 4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

|                | March 31, 2004        |                          |                | December 31, 2003     |                          |                |
|----------------|-----------------------|--------------------------|----------------|-----------------------|--------------------------|----------------|
|                | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Customer lists | \$ 176,616            | \$ (149,522 )            | \$ 27,094      | \$ 166,446            | \$ (145,099 )            | \$ 21,347      |
| Other          | 2,456                 | (1,311 )                 | 1,145          | 2,622                 | (1,258 )                 | 1,364          |
| Total          | \$ 179,072            | \$ (150,833 )            | \$ 28,239      | \$ 169,068            | \$ (146,357 )            | \$ 22,711      |

Amortization expense for customer lists and other intangible assets for the three months ended March 31, 2004 and 2003 was \$4.6 million and \$5.1 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the fiscal years ending December 31, 2004, 2005, 2006, 2007 and 2008 to be approximately \$16.1 million, \$7.9 million, \$2.8 million, \$1.7 million and \$1.1 million, respectively.

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

|          | March 31, 2004<br>Carrying<br>Amount | December 31, 2003<br>Carrying<br>Amount |
|----------|--------------------------------------|---|
| Goodwill | \$ 70,927                            | \$ 59,895                               |

The changes in the carrying amount of goodwill for the three months ended March 31, 2004 are as follows (in thousands and unaudited):

|   | North<br>America | Europe   | Asia-Pacific | Total     |
|---|------------------|----------|--------------|-----------|
| Balance as of January 1, 2004                       | \$ 50,025        | \$ 1,927 | \$ 7,943     | \$ 59,895 |
| Goodwill acquired during period                     |                  |          | 11,583       | 11,583    |
| Effect of change in foreign currency exchange rates | (302 )           | (58 )    | (191 )       | (551 )    |
| Balance as of March 31, 2004                        | \$ 49,723        | \$ 1,869 | \$ 19,335    | \$ 70,927 |

As discussed in Note 3, as of March 31, 2004, the purchase price allocation for AOL/7 has not been finalized due to the timing of the acquisition, and further reclassifications between non-amortized goodwill and customer lists may be required.

## 5. LONG-TERM OBLIGATIONS

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

|  | March 31,<br>2004 | December 31<br>2003 |
|--|-------------------|---------------------|
| Obligations under capital leases               | \$ 2,841          | \$ 4,040            |
| Leased fiber capacity                          | 39,617            | 40,509              |
| Financing facility and other                   | 10,458            | 22,626              |
| Senior notes                                   | 331,255           | 272,157             |
| Convertible senior notes                       | 132,000           | 132,000             |
| Convertible subordinated debentures            | 71,119            | 71,119              |
| Subtotal                                       | 587,290           | 542,451             |
| Less: Current portion of long-term obligations | (21,594 )         | (24,385 )           |
| Total long-term obligations                    | \$ 565,696        | \$ 518,066          |

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

### *Senior Notes, Convertible Senior Notes and Convertible Subordinated Debentures*

In January 2004, Primus Telecommunications Holding, Inc. (PTHI), a direct, wholly owned subsidiary of the Company, completed the sale of \$240 million in aggregate principal amount of 8% senior notes due 2014 (2004 Senior Notes). The Company recorded \$7.0 million in costs associated with the issuance of the 2004 Senior Notes, which have been recorded as deferred costs in other assets. The effective interest rate at March 31, 2004 was 8.4%. The 2004 Senior Notes are due on January 15, 2014, with semi-annual interest payments due on January 15<sup>th</sup> and July 15<sup>th</sup>, with the first payment due on July 15, 2004, with early redemption at a premium to par at PTHI's option at any time after January 15, 2009. PTHI may redeem up to 35% of the original aggregate principal amount with the net cash proceeds of certain equity offerings of the Company.

In September 2003, the Company completed the sale of \$132 million in aggregate principal amount of 3¾% convertible senior notes due 2010 (2003 Convertible Senior Notes) with semi-annual interest payments due on March 15<sup>th</sup> and September 15<sup>th</sup>, with the first payment due on March 15, 2004. The Company recorded \$5.2 million in costs associated with the issuance of the 2003 Convertible Senior Notes, which have been recorded as deferred costs in other assets. The effective interest rate at March 31, 2004 was 4.4%. Holders of these notes may convert their notes into the Company's common stock at any time prior to maturity at an initial conversion price of \$9.3234 per share, which is equivalent to an initial conversion rate of 107.257 shares per \$1,000 principal amount of the notes, subject to adjustment in certain circumstances. The notes are convertible in the aggregate into 14,157,925 shares of the Company's common stock.

In February 2000, the Company completed the sale of \$250 million in aggregate principal amount of 5¾% convertible subordinated debentures due 2007 (2000 Convertible Subordinated Debentures) with semi-annual interest payments due on February 15<sup>th</sup> and August 15<sup>th</sup>. 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, 2002.

In October 1999, the Company completed the sale of \$250 million in aggregate principal amount of 12<sup>3</sup>/<sub>4</sub>% 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 15<sup>th</sup> with early redemption at a premium to par at the Company's option at any time after October 15, 2004. During the years ended December 31, 2002, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In June and September 2002, the Company retired all of the October 1999 Senior Notes that it had previously purchased in the principal amount of \$134.3 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. In February and March 2004, the Company retired \$24.4 million principal amount of its October 1999 Senior Notes for \$27.3 million in cash. See the table below for detail on debt repurchases since December 31, 2002.

In January 1999, the Company completed the sale of \$200 million in aggregate principal amount of 11<sup>1</sup>/<sub>4</sub>% senior notes due 2009 ( January 1999 Senior Notes ) with semi-annual interest payments due on January 15th and July 15th. The January 1999 Senior Notes are due January 15, 2009 with early redemption at a premium to par at the Company's option at any time after January 15, 2004. In June 1999, in connection with the Telegroup acquisition, the Company issued \$45.5 million in aggregate principal amount of its 11<sup>1</sup>/<sub>4</sub>% 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. In February 2004, the Company satisfied and discharged the entire remaining principal balance of \$109.9 million of its January 1999 Senior Notes. The January 1999 Senior Notes were redeemed at 105.625% of par together with accrued interest to the date of redemption. See the table below for detail on debt repurchases since December 31, 2002.

On May 19, 1998, the Company completed the sale of \$150 million in aggregate principal amount of 9<sup>7</sup>/<sub>8</sub>% senior notes due 2008 ( 1998 Senior Notes ) with semi-annual interest payments due on May 15th and November 15th. The 1998 Senior Notes are due May 15, 2008 with early redemption at a premium to par at the Company's option any time after May 15, 2003. During the 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. In February 2004, the Company satisfied and discharged the entire remaining principal balance of \$46.6 million of its 1998 Senior Notes. The 1998 Senior Notes were redeemed at 104.938% of par together with accrued interest to the date of redemption. See the table below for detail on debt repurchases since December 31, 2002.

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

### For the three months ended March 31, 2004

|   | Balance at<br>December 31,<br>2003 | Debt<br>Issuance      | Principal<br>Purchases   | Warrant<br>Amortization<br>and Write-off | Balance at<br>March 31, 2004 | Cash Paid for<br>Purchase of<br>Principal |
|---|------------------------------------|-----------------------|--------------------------|--|------------------------------|---|
| 2004 8% Senior Notes due 2014               | \$                                 | \$ 240,000,000        | \$                       | \$                                       | \$ 240,000,000               | \$  |
| 2003 334% Convertible Senior Notes due 2010 | 132,000,000                        |                       |                          |  | 132,000,000                  |   |
| 2000 534% Convertible Debentures due 2007   | 71,119,000                         |                       |                          |  | 71,119,000                   |   |
| October 1999 1234% Senior Notes due 2009    | 115,680,000                        |                       | (24,425,000 )            |  | 91,255,000                   | 27,300,350                                |
| January 1999 1114% Senior Notes due 2009    | 109,897,000                        |                       | (109,897,000 )           |  |                              | 116,078,706                               |
| 1998 978% Senior Notes due 2008             | 46,580,000                         |                       | (46,580,000 )            |  |                              | 48,880,120                                |
| <b>Total</b>                                | <b>\$ 475,276,000</b>              | <b>\$ 240,000,000</b> | <b>\$ (180,902,000 )</b> | <b>\$</b>                                | <b>\$ 534,374,000</b>        | <b>\$ 192,259,176</b>                     |

### For the year ended December 31, 2003

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

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

During the three months ended September 30, 2001, the Company accepted delivery of fiber optic capacity on an indefeasible rights of use ( IRU ) basis from Southern Cross Cables Limited ( SCCL ). The Company and SCCL entered into an arrangement financing the capacity purchase. During the three months ended December 31, 2001, the Company renegotiated the payment terms with SCCL. Under the new terms, the payments for each capacity segment will be made over a five-year term ending in April 2008, which added two years to the original three-year term, and continues to bear interest at 6.0%

above LIBOR (7.09% at March 31, 2004). The Company further agreed to purchase \$12.2 million of additional fiber optic capacity from SCCL under the IRU agreement. The Company has fulfilled the total purchase obligation. At March 31, 2004 and December 31, 2003, the Company had a liability recorded under this agreement in the amount of \$19.0 million and \$18.6 million, respectively.

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity on an IRU basis in Australia for \$38.5 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 March 31, 2004 and December 31, 2003, the Company had a liability recorded in the amount of \$20.6 million (27.3 million AUD) and \$21.9 million (29.2 million AUD), respectively.

#### *Other Long-Term Obligations*

The Company's Australian subsidiary is party to a financing agreement, the ( Textron Agreement ), dated March 28, 2002, with Textron, under which Textron has agreed to finance eligible receivables from such subsidiary through March 31, 2005. Under the Textron Agreement, the subsidiary has agreed to pay program fees based upon the Bloomberg BBSWIB rate plus 5.75% per annum (10.6% at March 31, 2004), plus an annual commitment fee of \$150,000. The obligations under the Textron Agreement are secured by the financed receivables. The Company has unconditionally guaranteed the payment by its subsidiary of its obligations under the Textron Agreement. The finance commitment amount for the Textron Agreement is \$20.0 million. The Company had no accounts receivable balances pledged with no liability recorded at March 31, 2004, and \$11.3 million pledged as collateral with a liability of \$0.3 million, as of December 31, 2003, which is included in current portion of long-term obligations as the financing is payable on demand. The Company's Canadian subsidiary had an arrangement with Textron similar to the Textron Agreement, which was voluntarily terminated effective March 27, 2004. The Textron Agreement may be voluntarily terminated by the Australian subsidiary with 90 days prior written notice. If the Textron Agreement is voluntarily terminated prior to its termination date, a termination fee equal to 2% of the total commitment is payable.

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

During the three months ended March 31, 2003, Primus Canada signed an agreement with The Manufacturers Life Insurance Company ( Manulife ) to fund \$15.3 million (20.0 million CAD) for acquisitions. Since the inception of the agreement, \$9.9 million (13.0 million CAD) had been utilized under this facility. As of March 31, 2004, there was no liability outstanding. The funding was payable in full in March 2005 and bore an interest rate of 15.0% per annum, but as of March 31, 2004, the agreement has been cancelled. See Note 10 Subsequent Events.

## **6. OPERATING SEGMENT AND RELATED INFORMATION**

The Company has three reportable operating segments based on management's organization of the enterprise into geographic areas North America, Europe and Asia-Pacific. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary

of significant accounting policies. Net revenue by reportable segment is reported on the basis of where services are provided. The Company has no single customer representing greater than 10% of its revenues. Operations and assets of the North America segment include shared corporate functions and assets.

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

|                               | Three months ended |            |
|-------------------------------|--------------------|------------|
|                               | March 31,          |            |
|                               | 2004               | 2003       |
| <b>Net Revenue</b>            |                    |            |
| North America                 |                    |            |
| <i>United States</i>          | \$ 72,092          | \$ 72,601  |
| <i>Canada</i>                 | 61,730             | 44,219     |
| <i>Other</i>                  | 1,025              | 877        |
| Total North America           | 134,847            | 117,697    |
| Europe                        |                    |            |
| <i>United Kingdom</i>         | 50,485             | 35,438     |
| <i>Germany</i>                | 12,904             | 13,037     |
| <i>Netherlands</i>            | 21,618             | 38,160     |
| <i>Other</i>                  | 21,041             | 18,894     |
| Total Europe                  | 106,048            | 105,529    |
| Asia-Pacific                  |                    |            |
| <i>Australia</i>              | 101,062            | 72,503     |
| <i>Other</i>                  | 6,066              | 4,714      |
| Total Asia-Pacific            | 107,128            | 77,217     |
| Total                         | \$ 348,023         | \$ 300,443 |
| <b>Income From Operations</b> |                    |            |
| North America                 | \$ 2,266           | \$ 2,646   |
| Europe                        | 5,164              | 1,818      |
| Asia-Pacific                  | 13,112             | 7,459      |
| Total                         | \$ 20,542          | \$ 11,923  |



|                       | March 31,<br>2004 | December 31,<br>2003 |
|-----------------------|-------------------|----------------------|
| <b>Assets</b>         |                   |                      |
| North America         |                   |                      |
| <i>United States</i>  | \$ 193,955        | \$ 190,527           |
| <i>Canada</i>         | 121,597           | 124,789              |
| <i>Other</i>          | 7,617             | 7,671                |
| Total North America   | 323,169           | 322,987              |
| Europe                |                   |                      |
| <i>United Kingdom</i> | 75,344            | 80,243               |
| <i>Germany</i>        | 20,506            | 20,434               |
| <i>Netherlands</i>    | 13,528            | 15,387               |
| <i>Other</i>          | 56,270            | 57,138               |
| Total Europe          | 165,648           | 173,202              |
| Asia-Pacific          |                   |                      |
| <i>Australia</i>      | 261,866           | 229,765              |
| <i>Other</i>          | 26,264            | 25,210               |
| Total Asia-Pacific    | 288,130           | 254,975              |
| Total                 | \$ 776,947        | \$ 751,164           |

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

|               | Three months ended<br>March 31, |            |
|---------------|---------------------------------|------------|
|               | 2004                            | 2003       |
| Voice         | \$ 288,428                      | \$ 255,689 |
| Data/Internet | 40,522                          | 28,236     |
| VOIP          | 19,073                          | 16,518     |
| Total         | \$ 348,023                      | \$ 300,443 |

## 7. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and equipment financing obligations ( vendor financing ), purchase obligations and non-cancelable operating leases as of March 31, 2004 are as follows (in thousands):

| Year Ending December 31,                    | Vendor<br>Financing | Purchase<br>Obligations | Operating<br>Leases |
|---|---------------------|-------------------------|---------------------|
| 2004 (as of March 31, 2004)                 | \$ 12,740           | \$ 20,500               | \$ 13,905           |
| 2005  | 16,448              | 20,500                  | 10,086              |
| 2006  | 14,933              |                         | 7,123               |
| 2007  | 5,373               |                         | 5,671               |
| 2008  | 1,417               |                         | 3,468               |
| Thereafter                                  | 83                  |                         | 2,286               |
| Total Minimum Principal & Interest Payments | 50,994              | 41,000                  | 42,539              |
| Less: Amount Representing Interest          | (8,535 )            |                         |                     |
|   | \$ 42,459           | \$ 41,000               | \$ 42,539           |

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The Company has contractual obligations to utilize network facilities from two long distance 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 one year. The Company has minimum annual purchase obligations of \$20.5 million in 2004 and 2005.

Rent expense under operating leases was \$4.9 million and \$4.0 million for the three months ended March 31, 2004 and 2003, respectively.

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 \$6.1 million (8.0 million CAD), plus penalties and interest of \$11.6 million (15.2 million CAD). The Company is disputing the entire assessment. As of March 31, 2004, the Company paid \$1.6 million (2.1 million CAD) and committed to pay \$0.1 million (100,000 CAD) per month for the next four 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, results of operations and cash flows.

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

The Company 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 the Company's executive officers (the Primus Defendants ) as co-defendants. No officer of Primus has ever served as an officer or director of Tutornet or acquired any securities of Tutornet. Neither the Company nor any of the Company's subsidiaries or affiliates own, or have ever owned, any securities of Tutornet. In the Virginia case, the Primus Defendants were dismissed before the case went to the jury. The case continued against the Non-Primus Defendants, and the jury rendered a verdict of \$176 million in favor of the Plaintiffs against the Non-Primus Defendants only. The Non-Primus Defendants filed post-trial motions seeking to reverse or reduce the jury's award, and the Plaintiffs 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. Plaintiffs and the Primus Defendants have briefed the 4th Circuit of the United States Court of Appeals and oral arguments have been made and the Company is awaiting the Court's

decision. The New Jersey case was filed on September 24, 2002 and includes claims against the Primus Defendants. The Primus Defendants moved to dismiss, and the case was stayed pending further decision by the court in the Virginia case 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 defend vigorously against these actions and believe 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 Primus does not have 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, results of operations and cash flows.

On December 17, 2003, Primus Telecommunication Incorporated ( PTI ), the Company's principal United States operating subsidiary, was served with notice that the Enforcement Bureau of the Federal Communications Commission (FCC) is conducting an inquiry concerning 96 alleged telephone calls made on behalf of PTI to residential telephone lines that were either (1) included on the Do-Not-Call Registry or (2) to consumers who directly requested not to receive telemarketing calls from PTI. PTI does not conduct outbound telemarketing to residential customers, but does use third-party telemarketers. PTI reviewed the circumstances surrounding the subject matter of the inquiry and responded to the original inquiry on January 23, 2004. On February 20, 2004, the FCC sent PTI a letter seeking additional information from PTI. PTI provided the FCC with a response to the request for additional information on March 11, 2004. Because the Do-Not-Call regulations are relatively new and little formal interpretive guidance exists regarding whether the matters identified in the inquiry represent a violation by PTI of these regulations, it is not clear what consequences the inquiry will have on PTI. PTI is in the process of investigating whether it has responsibility related to these allegations, or, notwithstanding the actions or inactions of third-party telemarketers that may have given rise to the inquiry, PTI has satisfied the standards set out by the FCC as part of its routine business practices. Penalties for violations of the rules associated with the Do-Not-Call Registry and the consumer requests not to receive telemarketing calls can reach up to \$11,000 per call. The Company has recorded an accrual for the amounts that management estimates to be the probable loss. Management believes that this inquiry will not have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

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

#### **8. BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE (AS RESTATED)**

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

Prior to the conversion of the Series C convertible preferred stock ( Series C Preferred ) into common shares in November 2003, the Company included the number of common shares issuable upon conversion of the Series C Preferred in the basic weighted average common shares outstanding as the Series C Preferred was deemed to participate in the earnings of the Company with common shares. Subsequent to the issuance of the Company's Form 10-Q for the quarter ended March 31, 2004, the Company determined that the Series C Preferred did not meet the definition of a participating security. As a result, the basic income per common share for the three months ended March 31, 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 on the previously issued consolidated condensed financial information follows (in thousands, except per share amounts, and unaudited):

|  | <b>For the Three Months Ended<br/>March 31, 2003</b> |                        |
|--|--|------------------------|
|  | <b>Previously<br/>Reported</b>                       | <b>As<br/>Restated</b> |
| Basic income per common share                    | \$ 0.13  | \$ 0.17                |
| Basic weighted average common shares outstanding | 82,863   | 65,083                 |

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 and 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 months ended March 31, 2004, the following could potentially dilute income per common share in the future but were excluded from the calculation of income per common share due to their antidilutive effects:

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

For the three months ended March 31, 2003, the following could potentially dilute income per common share in the future but were excluded from the calculation of income per common share due to their antidilutive effects:

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

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

|  | <b>Three months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2004</b>                             | <b>2003</b> |
| Net income (loss)  | \$ (10,055 )                            | \$ 11,201   |
| Accreted and deemed dividend on convertible preferred stock            |   | (322 )      |
| Income attributable to common stockholders                             | \$ (10,055 )                            | \$ 10,879   |
| Weighted average common shares outstanding - basic                     | 88,770                                  | 65,083      |
| Series C Preferred   |   | 17,780      |
| In-the-money options exercisable under stock option compensation plans |   | 1,062       |
| Weighted average common shares outstanding - diluted                   | 88,770                                  | 83,925      |
| Income per common share:   |   |             |
| Basic  | \$ (0.11 )                              | \$ 0.17     |

Diluted

\$ (0.11 ) \$ 0.13

**9. GUARANTOR/NON-GUARANTOR CONSOLIDATING CONDENSED FINANCIAL INFORMATION**

Subsequent to the issuance of the Company's Form 10-Q for the quarter ended March 31, 2004, the Company's management determined that the previously issued guarantor/non-guarantor consolidating condensed financial information disclosure did not reflect the capital contribution of certain intercompany

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receivable and payable balances to the Company's wholly owned subsidiary, PTHI, which occurred in connection with PTHI's issuance of 8% senior notes, which are guaranteed by the Company, in January 2004. As a result, Note 9 is hereby restated to reflect such capital contribution.

A summary of the effects of the adjustments on the previously issued consolidating condensed financial information as of, and for the three-month period ended March 31, 2004 follows (in thousands):

|  | For the Three Months Ended March 31, 2004 |             |              |              |             |              |
|--|---|-------------|--------------|--------------|-------------|--------------|
|  | Previously Reported                       |             |              | As Restated  |             |              |
|  | PTGI                                      | PTHI        | Elimination  | PTGI         | PTHI        | Elimination  |
| <b>Statement of Operations Data:</b>     |   |             |              |              |             |              |
| Interest expense                         | \$ (8,278 )                               | \$ (6,801 ) | \$           | \$ (8,267 )  | \$ (6,812 ) | \$           |
| Foreign currency transaction gain (loss) | \$ (391 )                                 | \$ (741 )   | \$           | \$ (7 )      | \$ (1,125 ) | \$           |
| Intercompany interest                    | \$ 1,792                                  | \$ (1,792 ) | \$           | \$ (11 )     | \$ 11       | \$           |
| Equity in net income of subsidiaries     | \$ 12,109                                 | \$          | \$ (12,109 ) | \$ 13,203    | \$          | \$ (13,203 ) |
| Income tax expense                       | \$ (314 )                                 | \$ (615 )   | \$           | \$           | \$ (929 )   | \$           |
| Net income                               | \$ (10,055 )                              | \$ 12,109   | \$ (12,109 ) | \$ (10,055 ) | \$ 13,203   | \$ (13,203 ) |

|                            | March 31, 2004      |               |               |               |               |                 |
|----------------------------|---------------------|---------------|---------------|---------------|---------------|-----------------|
|                            | Previously Reported |               |               | As Restated   |               |                 |
|                            | PTGI                | PTHI          | Elimination   | PTGI          | PTHI          | Elimination     |
| <b>Balance Sheet Data:</b> |                     |               |               |               |               |                 |
| Intercompany receivables   | \$ 710,211          | \$            | \$ (710,211 ) | \$            | \$ 147,397    | \$ (147,397 )   |
| Investment in subsidiaries | \$ (459,038 )       | \$            | \$ 459,038    | \$ 398,141    | \$            | \$ (398,141 )   |
| Accrued income taxes       | \$ 1,585            | \$ 19,953     | \$            | \$ 1,145      | \$ 20,393     | \$              |
| Intercompany payables      | \$                  | \$ 710,211    | \$ (710,211 ) | \$ 147,397    | \$            | \$ (147,397 )   |
| Additional paid-in capital | \$ 651,874          | \$ 305,852    | \$ (305,852 ) | \$ 651,874    | \$ 1,161,937  | \$ (1,161,937 ) |
| Accumulated deficit        | \$ (695,132 )       | \$ (764,890 ) | \$ 764,890    | \$ (695,132 ) | \$ (763,796 ) | \$ 763,796      |

|   | For the Three Months Ended March 31, 2004 |               |              |              |               |              |
|---|---|---------------|--------------|--------------|---------------|--------------|
|   | Previously Reported                       |               |              | As Restated  |               |              |
|   | PTGI                                      | PTHI          | Elimination  | PTGI         | PTHI          | Elimination  |
| <b>Statement of Cash Flows Data:</b>  |   |               |              |              |               |              |
| Net income  | \$ (10,055 )                              | \$ 12,109     | \$ (12,109 ) | \$ (10,055 ) | \$ 13,203     | \$ (13,203 ) |
| Equity in net income of subsidiary  | \$ (12,109 )                              | \$            | \$ 12,109    | \$ (13,203 ) | \$            | \$ 13,203    |
| Unrealized foreign currency transaction loss on intercompany and foreign debt                       | \$ 258                                    | \$ 577        | \$           | \$           | \$ 835        | \$           |
| (Increase) decrease in intercompany balance   | \$ 205,720                                | \$ (205,720 ) | \$           | \$ 207,512   | \$ (207,512 ) | \$           |
| Decrease in accrued expenses, other current liabilities, accrued income taxes and other liabilities | \$ (29 )                                  | \$ (6,525 )   | \$           | \$ (469 )    | \$ (6,085 )   | \$           |

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

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



**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**  
(in thousands)  
(unaudited)

|  | For the Three Months Ended March 31, 2004 |            |              | Consolidated |
|--|---|------------|--------------|--------------|
|  | PTGI                                      | PTHI       | Eliminations |              |
| NET REVENUE  | \$  | \$ 348,023 | \$           | \$ 348,023   |
| OPERATING EXPENSES   |   |            |              |              |
| Cost of revenue (exclusive of depreciation included below) |   | 209,657    |              | 209,657      |
| Selling, general and administrative                        | 1,422                                     | 92,895     |              | 94,317       |
| Depreciation and amortization                              |   | 23,507     |              | 23,507       |
| Asset impairment write-down                                |   |            |              |              |
| Total operating expenses                                   | 1,422                                     | 326,059    |              | 327,481      |
| INCOME (LOSS) FROM OPERATIONS                              | (1,422 )                                  | 21,964     |              | 20,542       |
| INTEREST EXPENSE   | (8,267 )                                  | (6,812 )   |              | (15,079 )    |
| LOSS ON EARLY EXTINGUISHMENT OF DEBT                       | (13,698 )                                 | (495 )     |              | (14,193 )    |
| INTEREST INCOME AND OTHER INCOME                           | 147                                       | 589        |              | 736          |
| FOREIGN CURRENCY TRANSACTION LOSS                          | (7 )                                      | (1,125 )   |              | (1,132 )     |
| INTERCOMPANY INTEREST                                      | (11 )                                     | 11         |              |              |
| EQUITY IN NET INCOME OF SUBSIDIARIES                       | 13,203                                    |            | (13,203 )    |              |
| LOSS BEFORE INCOME TAXES                                   | (10,055 )                                 | 14,132     | (13,203 )    | (9,126 )     |
| INCOME TAX EXPENSE   |   | (929 )     |              | (929 )       |
| NET LOSS   | \$ (10,055 )                              | \$ 13,203  | \$ (13,203 ) | \$ (10,055 ) |



**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**  
(in thousands)  
(unaudited)

|   | For the Three Months Ended March 31, 2003 |            |              | Consolidated |
|---|---|------------|--------------|--------------|
|   | PTGI                                      | PTHI       | Eliminations |              |
| NET REVENUE   | \$  | \$ 300,443 | \$           | \$ 300,443   |
| OPERATING EXPENSES  |   |            |              |              |
| Cost of revenue (exclusive of depreciation included below)    |   | 190,023    |              | 190,023      |
| Selling, general and administrative                           | 712                                       | 76,913     |              | 77,625       |
| Depreciation and amortization                                 |   | 20,335     |              | 20,335       |
| Asset impairment write-down                                   |   | 537        |              | 537          |
| Total operating expenses                                      | 712                                       | 287,808    |              | 288,520      |
| INCOME (LOSS) FROM OPERATIONS                                 | (712 )                                    | 12,635     |              | 11,923       |
| INTEREST EXPENSE  | (11,782 )                                 | (3,595 )   |              | (15,377 )    |
| GAIN ON EARLY EXTINGUISHMENT OF DEBT                          | 6,653                                     |            |              | 6,653        |
| INTEREST INCOME AND OTHER INCOME                              | 22  | 260        |              | 282          |
| FOREIGN CURRENCY TRANSACTION GAIN                             | 1,713                                     | 8,340      |              | 10,053       |
| INTERCOMPANY INTEREST   | 1,348                                     | (1,348 )   |              |              |
| EQUITY IN NET INCOME OF SUBSIDIARIES                          | 14,051                                    |            | (14,051 )    |              |
| INCOME BEFORE INCOME TAXES                                    | 11,293                                    | 16,292     | (14,051 )    | 13,534       |
| INCOME TAX EXPENSE  | (92 )                                     | (2,241 )   |              | (2,333 )     |
| NET INCOME  | 11,201                                    | 14,051     | (14,051 )    | 11,201       |
| ACCREDITED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK | (322 )                                    |            |              | (322 )       |
| INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS                    | \$ 10,879                                 | \$ 14,051  | \$ (14,051 ) | \$ 10,879    |

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED BALANCE SHEET**  
(in thousands)  
(unaudited)

|  | March 31, 2004 |            |               |              |
|--|----------------|------------|---------------|--------------|
|  | PTGI           | PTHI       | Eliminations  | Consolidated |
| <b>ASSETS</b>                                  |                |            |               |              |
| <b>CURRENT ASSETS:</b>                         |                |            |               |              |
| Cash and cash equivalents                      | \$ 2,357       | \$ 73,175  | \$            | \$ 75,532    |
| Accounts receivable                            |                | 197,056    |               | 197,056      |
| Prepaid expenses and other current assets      | 1,372          | 37,937     |               | 39,309       |
| Total current assets                           | 3,729          | 308,168    |               | 311,897      |
| INTERCOMPANY RECEIVABLES                       |                | 147,397    | (147,397 )    |              |
| INVESTMENTS IN SUBSIDIARIES                    | 398,141        |            | (398,141 )    |              |
| RESTRICTED CASH                                |                | 12,525     |               | 12,525       |
| PROPERTY AND EQUIPMENT Net                     |                | 334,964    |               | 334,964      |
| GOODWILL Net                                   |                | 70,927     |               | 70,927       |
| OTHER INTANGIBLE ASSETS Net                    |                | 28,239     |               | 28,239       |
| OTHER ASSETS                                   | 7,314          | 11,081     |               | 18,395       |
| TOTAL ASSETS                                   | \$ 409,184     | \$ 913,301 | \$ (545,538 ) | \$ 776,947   |
| <b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>    |                |            |               |              |
| <b>CURRENT LIABILITIES:</b>                    |                |            |               |              |
| Accounts payable                               | \$ 1,617       | \$ 99,889  | \$            | \$ 101,506   |
| Accrued interconnection costs                  |                | 86,294     |               | 86,294       |
| Accrued expenses and other current liabilities | 815            | 72,333     |               | 73,148       |
| Accrued income taxes                           | 1,145          | 20,393     |               | 21,538       |
| Accrued interest                               | 6,205          | 4,366      |               | 10,571       |
| Current portion of long-term obligations       |                | 21,594     |               | 21,594       |
| Total current liabilities                      | 9,782          | 304,869    |               | 314,651      |
| INTERCOMPANY PAYABLES                          | 147,397        |            | (147,397 )    |              |
| LONG-TERM OBLIGATIONS                          | 294,374        | 271,322    |               | 565,696      |
| OTHER LIABILITIES                              |                | 1,620      |               | 1,620        |
| Total liabilities                              | 451,553        | 577,811    | (147,397 )    | 881,967      |
| <b>COMMITMENTS AND CONTINGENCIES</b>           |                |            |               |              |
| <b>STOCKHOLDERS DEFICIT:</b>                   |                |            |               |              |
| Common stock                                   | 889            |            |               | 889          |
| Additional paid-in capital                     | 651,874        | 1,161,937  | (1,161,937 )  | 651,874      |
| Accumulated deficit                            | (695,132 )     | (763,796 ) | 763,796       | (695,132 )   |
| Accumulated other comprehensive loss           |                | (62,651 )  |               | (62,651 )    |
| Total stockholders deficit                     | (42,369 )      | 335,490    | (398,141 )    | (105,020 )   |
| TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT     | \$ 409,184     | \$ 913,301 | \$ (545,538 ) | \$ 776,947   |

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED BALANCE SHEET**  
(in thousands)  
(unaudited)

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

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**  
(in thousands)  
(unaudited)

|   | For the Three Months Ended March 31, 2004 |                  |              |                  |
|---|---|------------------|--------------|------------------|
|   | PTGI                                      | PTHI             | Eliminations | Consolidated     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |   |                  |              |                  |
| Net income (loss)   | \$ (10,055 )                              | \$ 13,203        | \$ (13,203 ) | \$ (10,055 )     |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:            |   |                  |              |                  |
| Provision for doubtful accounts receivable  |   | 2,825            |              | 2,825            |
| Depreciation and amortization   |   | 23,507           |              | 23,507           |
| Equity in net income of subsidiary  | (13,203 )                                 |                  | 13,203       |                  |
| Equity investment loss  |   | 13               |              | 13               |
| Loss on early extinguishment of debt  | 13,698                                    | 495              |              | 14,193           |
| Minority interest share of income   |   | (132 )           |              | (132 )           |
| Unrealized foreign currency transaction loss on intercompany and foreign debt                       |   | 835              |              | 835              |
| Changes in assets and liabilities, net of acquisitions:   |   |                  |              |                  |
| Decrease in accounts receivable   |   | 1,466            |              | 1,466            |
| (Increase) decrease in prepaid expenses and other current assets                                    | 39  | (1,500 )         |              | (1,461 )         |
| (Increase) decrease in other assets   | 379                                       | (1,505 )         |              | (1,126 )         |
| (Increase) decrease in intercompany balance   | 207,512                                   | (207,512 )       |              |                  |
| Increase (decrease) in accounts payable   | 369                                       | (8,032 )         |              | (7,663 )         |
| Decrease in accrued expenses, other current liabilities, accrued income taxes and other liabilities | (469 )                                    | (6,085 )         |              | (6,554 )         |
| Increase (decrease) in accrued interest   | (6,158 )                                  | 3,889            |              | (2,269 )         |
| Net cash provided by (used in) operating activities   | 192,112                                   | (178,533 )       |              | 13,579           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |   |                  |              |                  |
| Purchase of property and equipment  |   | (9,773 )         |              | (9,773 )         |
| Cash used for business acquisitions, net of cash acquired   |   | (17,579 )        |              | (17,579 )        |
| Net cash used in investing activities   |   | (27,352 )        |              | (27,352 )        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |   |                  |              |                  |
| Proceeds from issuance of long-term obligations, net  |   | 233,000          |              | 233,000          |
| Purchase of the Company's debt securities   | (192,259 )                                |                  |              | (192,259 )       |
| Principal payments on capital leases, vendor financing and other long-term obligations              |   | (16,196 )        |              | (16,196 )        |
| Proceeds from sale of common stock  | 718                                       |                  |              | 718              |
| Net cash used in financing activities   | (191,541 )                                | 216,804          |              | 25,263           |
| <b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>                                |   |                  |              |                  |
|   |   | (24 )            |              | (24 )            |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | <b>571</b>                                | <b>10,895</b>    |              | <b>11,466</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>   | <b>1,786</b>                              | <b>62,280</b>    |              | <b>64,066</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>   | <b>\$ 2,357</b>                           | <b>\$ 73,175</b> | <b>\$</b>    | <b>\$ 75,532</b> |

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**  
(in thousands)  
(unaudited)

|   | For the Three Months Ended March 31, 2003 |                  |              | Consolidated     |
|---|---|------------------|--------------|------------------|
|   | PTGI                                      | PTHI             | Eliminations |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |   |                  |              |                  |
| Net income (loss)   | \$ 11,201                                 | \$ 14,051        | \$ (14,051 ) | \$ 11,201        |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:            |   |                  |              |                  |
| Provision for doubtful accounts receivable  |   | 6,756            |              | 6,756            |
| Stock issuance 401(k) Plan and Restricted Stock Plan  |   | 258              |              | 258              |
| Depreciation, amortization and accretion  |   | 20,353           |              | 20,353           |
| Asset impairment write-down   |   | 537              |              | 537              |
| Equity in net income of subsidiary  | (14,051 )                                 |                  | 14,051       |                  |
| Equity investment loss  |   | 39               |              | 39               |
| Gain on early extinguishment of debt  | (6,653 )                                  |                  |              | (6,653 )         |
| Minority interest share of income   |   | (88 )            |              | (88 )            |
| Unrealized foreign currency transaction gain on intercompany and foreign debt                       | (1,749 )                                  | (8,868 )         |              | (10,617 )        |
| Changes in assets and liabilities, net of acquisitions:   |   |                  |              |                  |
| Increase in accounts receivable   |   | (16,373 )        |              | (16,373 )        |
| (Increase) decrease in prepaid expenses and other current assets                                    | (685 )                                    | 2,204            |              | 1,519            |
| Decrease in restricted cash   |   | 906              |              | 906              |
| Decrease in other assets  | 427                                       | 346              |              | 773              |
| (Increase) decrease in intercompany balance   | 141,270                                   | (141,270 )       |              |                  |
| Increase in accounts payable  | 136                                       | 8,024            |              | 8,160            |
| Increase in accrued expenses, other current liabilities, accrued income taxes and other liabilities | 17  | 5,938            |              | 5,955            |
| Increase (decrease) in accrued interest   | (2,786 )                                  | 163              |              | (2,623 )         |
| Net cash provided by (used in) operating activities   | 127,127                                   | (107,024 )       |              | 20,103           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |   |                  |              |                  |
| Purchase of property and equipment  |   | (4,972 )         |              | (4,972 )         |
| Cash used for business acquisitions, net of cash acquired   |   | (81 )            |              | (81 )            |
| Net cash used in investing activities   |   | (5,053 )         |              | (5,053 )         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |   |                  |              |                  |
| Proceeds from issuance of long-term obligations, net  |   | 4,743            |              | 4,743            |
| Purchase of the Company's debt securities   | (36,236 )                                 |                  |              | (36,236 )        |
| Principal payments on capital leases, vendor financing and other long-term obligations              | (90,546 )                                 | 80,865           |              | (9,681 )         |
| Proceeds from sale of convertible preferred stock, net  | 8,956                                     |                  |              | 8,956            |
| Proceeds from sale of common stock  | 59  |                  |              | 59               |
| Net cash used in financing activities   | (117,767 )                                | 85,608           |              | (32,159 )        |
| <b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>                                |   |                  |              |                  |
|   |   | 46               |              | 46               |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | <b>9,360</b>                              | <b>(26,423 )</b> |              | <b>(17,063 )</b> |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>   | <b>590</b>                                | <b>91,902</b>    |              | <b>92,492</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>   | <b>\$ 9,950</b>                           | <b>\$ 65,479</b> | <b>\$</b>    | <b>\$ 75,429</b> |

## 10. SUBSEQUENT EVENTS

In April 2004, the Company's wholly owned subsidiary in Canada, Primus Telecommunications Canada, Inc. ( Primus Canada ), entered into a loan agreement with Manulife. The agreement provides for a \$32.1 million (42 million CAD) two-year non-revolving term loan credit facility, bearing an interest rate of 7.75%. The agreement allows the proceeds to be used for general corporate purposes and is secured by the assets of Primus Canada's operations.

In April 2004, Primus Canada acquired Magma Communications Ltd. ( Magma ), a provider of Internet solutions to corporate, government and residential customers in Toronto, Ottawa and Montreal. Primus Canada acquired 100% of the issued stock of Magma for a total consideration of \$12.2 million (16 million CAD), half of which was paid from available cash and the balance in 734,018 shares of the Company's common stock.

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#### 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

| Exhibit<br>Number | Description      |
|-------------------|------------------|
| 31                | Certifications.  |
| 32                | Certifications*. |

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\* 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.

