

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

Use these links to rapidly review the document

[PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED INDEX TO FORM 10-K/A](#)  
[PART II](#)  
[INDEX TO FINANCIAL STATEMENTS AND SCHEDULE](#)

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

### FORM 10-K/A

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

For the fiscal year ended December 31, 2003

OR

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

Commission File No. 0-29092

### PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

54-1708481

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

1700 Old Meadow Road, Suite 300, McLean, VA

(Address of principal executive offices)

22102

(Zip Code)

(703) 902-2800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

None

N/A

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, par value \$.01 per share**

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Non-affiliates of Primus Telecommunications Group, Incorporated held 51,065,784 shares of Common Stock as of June 30, 2003. The fair market value of the stock held by non-affiliates is \$262,988,788 based on the sale price of the shares on June 30, 2003.

As of September 30, 2004, 89,863,126 shares of Common Stock, par value \$.01, were outstanding.

**Documents Incorporated by Reference:**

Portions of the definitive Proxy Statement to be delivered to Stockholders in connection with the Annual Meeting of Stockholders are incorporated by reference into Part III.

---

---

---

## **PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

### **EXPLANATORY NOTE**

Primus Telecommunications Group, Incorporated and subsidiaries (the "Company") is filing this Amendment to Form 10-K solely to amend the basic weighted average common shares outstanding and basic and diluted income per common share accordingly, disclosed in the consolidated financial statements included in Part II, Item 8 of the Company's Form 10-K for the year ended December 31, 2003 as originally filed with the Securities and Exchange Commission on March 15, 2004 (the "Annual Report"). Basic weighted average common shares outstanding as presented on the statement of operations and in the notes to the consolidated financial statements for the year ended December 31, 2003 is hereby restated to reflect the removal of the Series C convertible preferred stock from the calculation of basic weighted average common shares outstanding as it does not meet the definition of a participating security. Because the Series C Preferred was deemed to be non-participating, the shares are assumed to be converted into common shares and the accreted and deemed dividend on convertible preferred stock is removed from the calculation of diluted income per common share. Basic and diluted income per common share were restated accordingly. There is no impact on previously reported net income for the year ended December 31, 2003 nor on the statements of operations for the years ended December 31, 2002 and December 31, 2001. This Amendment reflects only the changes discussed above. No other information included in the Annual Report has been modified or updated. This Amendment continues to speak as of the date of the original filing of the Annual Report, and the Company has not updated the disclosures to reflect any events that occurred at a later date.

Concurrently, the Company is filing its amended quarterly reports on Form 10-Q/A for the quarters ended June 30, 2004, March 31, 2004 and September 30, 2003 to reflect the amended basic weighted average common shares outstanding and the calculation of basic and diluted income per common share.

This Amendment also includes Note 23 Guarantor/Non-Guarantor Consolidating Condensed Financial Information, which information was required to be disclosed in April 2004 in connection with the registration of Primus Telecommunications Holding, Inc.'s 8% senior notes due 2014, and as a result the Company filed a current report on Form 8-K on April 29, 2004 (the "Form 8-K") which superceded the previously filed Form 10-K. This Form 10-K/A supercedes the information previously filed on the Form 8-K.

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

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

<u>Item</u>		<u>Page</u>
	<b><u>Part II</u></b>	
<u>8.</u>	Financial Statements and Supplementary Data	4
<u>9A.</u>	Controls and Procedures	4
	<b><u>Part IV</u></b>	
<u>15.</u>	Exhibits, Financial Statement Schedule, and Reports on Form 8-K	5
<u>Signatures</u>		9

---

**PART II****ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Financial Statements</u>	
<u>Consolidated Statements of Operations for the years ended December 31, 2003 (as restated), 2002 and 2001</u>	F-3
<u>Consolidated Balance Sheets as of December 31, 2003 and 2002</u>	F-4
<u>Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2003, 2002 and 2001</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001</u>	F-6
<u>Consolidated Statements of Comprehensive Loss for the years ended December 31, 2003, 2002 and 2001</u>	F-7
<u>Notes to the Consolidated Financial Statements</u>	F-8

**ITEM 9A. 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 IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

- a)  
Financial Statements and Schedules

The financial statements as set forth under Item 8 of this report on Form 10-K are incorporated herein.

Financial Statement Schedules:	Page
(II) Valuation and Qualifying Accounts	S-1

All other financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

- b)  
Reports on 8-K

Form 8-K dated October 22, 2003, was filed to announce the Company's filing of a Registration Statement on Form S-3 with the Securities and Exchange Commission concerning the resale of September 2003 Convertible Senior Notes (and the underlying shares of common stock), as contemplated by a registration rights agreement entered into between Primus and the initial purchasers of those notes in connection with their September 15, 2003 issuance and sale pursuant to Rule 144A under the Securities Act of 1933.

Form 8-K dated November 6, 2003, was filed to announce the Company's results of operations for the quarter ended September 30, 2003.

- c)  
Exhibit listing

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Primus; Incorporated by reference to Exhibit 3.1 of the Registration Statement on Form S-8, No. 333-56557 (the "S-8 Registration Statement").
3.2	Amended and Restated Bylaws of Primus.
3.3	Intentionally left blank.
3.4	Registration Rights Agreement dated December 31, 2002, concerning the rights of the former holders of the Company's Series C Convertible Preferred Stock (the "2002 Registration Rights Agreement"); Incorporated by reference to the Company's Form 8-K filed with the SEC on January 2, 2003.
3.5	Amendment No. 1 to the 2002 Registration Rights Agreement; Incorporated by reference to Exhibit 4.2 to Pre-Effective Amendment No. 2 to the Company's Registration Statement on Form S-3, No. 333-110234 (the "Resale S-3").
4.1	Specimen Certificate of Primus Common Stock; Incorporated by reference to Exhibit 4.1 of the IPO Registration Statement.
4.2	Form of Indenture; Incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-1, No. 333-30195 (the "1997 Senior Note Registration Statement").

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

Exhibit Number	Description
4.3	Form of Indenture of Primus, as amended and restated on January 20, 1999, between Primus and First Union National Bank; Incorporated by reference to Exhibit 4.3 of the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (the "1998 10-K").
4.4	Form of Warrant Agreement of Primus; Incorporated by reference to Exhibit 4.2 of the 1997 Senior Note Registration Statement.

- 4.5 Intentionally left blank.
- 4.6 Intentionally left blank.
- 4.7 Intentionally left blank.
- 4.8 Intentionally left blank.
- 4.9 Rights Agreement, dated as of December 23, 1998, between Primus and StockTrans, Inc., including the Form of Rights Certificate (Exhibit A), the Certificate of Designation (Exhibit B) and the Form of Summary of Rights (Exhibit C); Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A, No. 0-29092 filed with the Commission on December 30, 1998.
- 4.10 Form of legend on certificates representing shares of Common Stock regarding Series B Junior Participating Preferred Stock Purchase Rights; Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form 8-A, No. 0-29092 filed with the Commission on December 30, 1998.
- 4.11 Supplemental Indenture between Primus and First Union National Bank dated January 20, 1999; Incorporated by reference to Exhibit 4.3 to Amendment No. 1 to the Company's Registration Statement on Form S-4, No. 333-76965, filed with the Commission on May 6, 1999.
- 4.12 Intentionally left blank.
- 4.13 Intentionally left blank.
- 4.14 Indenture, dated October 15, 1999, between the Company and First Union National Bank including therein the form of the notes; Incorporated by reference to the November S-4.
- 4.15 Intentionally left blank.
- 4.16 Indenture, dated February 24, 2000, between the Company and First Union National Bank; Incorporated by reference to Exhibit 4.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (the "2000 10-K").
- 4.17 Specimen 5<sup>3</sup>/<sub>4</sub>% convertible subordinated debenture due 2007; Incorporated by reference to Exhibit A to Exhibit 4.16 to the 2000 10-K.
- 4.18 Intentionally left blank.
- 4.19 Amendment No.1 to Rights Agreement, dated as of December 30, 2002, between Primus and StockTrans, Inc.
- 4.20 Indenture dated as of September 15, 2003 between the Company and Wachovia Bank, National Association, concerning the Company's 3<sup>3</sup>/<sub>4</sub>% convertible notes, including therein the forms of the notes; Incorporated by reference to Exhibit 4.1 of Post-Effective Amendment No. 1 (No. 333-109902) to the Company's Registration Statement on Form S-3.
- 4.21 Registration Rights Agreement dated as of September 15, 2003 between the Company, Lehman Brothers Inc. and Harris Nesbitt Corp; Incorporated by reference to Exhibit 4.2 of Post-Effective Amendment No. 1 (No. 333-109902) to the Company's Registration Statement on Form S-3.
- 4.22 Form of Senior Debt Indenture under Universal Shelf Registration Statement on Form S-3 (No. 333-110241) (the "Universal S-3"); Incorporated by reference to Exhibit 4.3 of the Universal S-3.
- 4.23 Form of Subordinated Debt Indenture under Universal S-3; Incorporated by reference to Exhibit 4.4 of the Universal S-3.



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

- 10.1 Amendment No. 1 to Stockholder Agreement among Warburg, Pincus, K. Paul Singh, Primus, and TresCom, dated as of April 16, 1998; Incorporated by reference to Exhibit 10.1 of the Form 8-K for Amendments.
- 10.2 Switched Transit Agreement, dated June 5, 1995, between Teleglobe USA, Inc. and Primus for the provision of services to India; Incorporated by reference to Exhibit 10.2 of the IPO Registration Statement.
- 10.3 Hardpatch Transit Agreement, dated February 29, 1996, between Teleglobe USA, Inc. and Primus for the provision of services to Iran; Incorporated by reference to Exhibit 10.3 of the IPO Registration Statement.
- 10.4 Employment Agreement, dated June 1, 1994, between Primus and K. Paul Singh; Incorporated by reference to Exhibit 10.5 of the IPO Registration Statement.\*\*
- 10.5 Primus 1995 Stock Option Plan, as amended; Incorporated by reference to Exhibit 10.5 of the 2000 10-K.\*\*
- 10.6 Primus 1995 Director Stock Option Plan; Incorporated by reference to Exhibit 10.7 of the IPO Registration Statement.\*\*
- 10.7 Intentionally left blank.
- 10.8 Service Provider Agreement between Telstra Corporation Limited and Axicorp Pty., Ltd., dated May 3, 1995; Incorporated by reference to Exhibit 10.12 of the IPO Registration Statement.
- 10.9 Dealer Agreement between Telstra Corporation Limited and Axicorp Pty., Ltd. dated January 8, 1996; Incorporated by reference to Exhibit 10.13 of the IPO Registration Statement.
- 10.10 Hardpatch Transit Agreement dated October 5, 1995 between Teleglobe USA, Inc. and Primus regarding the provision of services to India; Incorporated by reference to Exhibit 10.14 of the IPO Registration Statement.
- 10.11 Master Lease Agreement dated as of November 21, 1997 between NTFC Capital Corporation and Primus Telecommunications, Inc.; Incorporated by reference to Exhibit 10.17 of Primus's Annual Report on Form 10-K for the year ended December 31, 1997, as amended on Form 10-K/A dated April 30, 1998 (the "1997 10-K").
- 10.12 Primus Employee Stock Purchase Plan; Incorporated by reference to Exhibit 10.15 of the 1997 Senior Note Registration Statement.\*\*
- 10.13 Primus 401(k) Plan; Incorporated by reference to Exhibit 4.4 of the Primus Registration Statement on Form S-8 (No. 333-35005).
- 10.14 Intentionally left blank.
- 10.15 Primus Telecommunications Group, Incorporated-TresCom International Stock Option Plan; Incorporated by reference to Exhibit 4.1 of the S-8 Registration Statement.\*\*
- 10.16 Warrant Agreement between the Company and Warburg, Pincus Investors, L.P.; Incorporated by reference to Exhibit 10.6 to the TresCom Form S-1.
- 10.17 Form of Indemnification Agreement between the Company and its directors and executive officers; Incorporated by reference to Exhibit 10.23 to the TresCom Form S-1.
- 10.18 The Company's 1998 Restricted Stock Plan; Incorporated by reference to Exhibit 10.33 to Amendment No. 1 to the Company's Registration Statement on Form S-3, No. 333-86839, filed with the Commission on September 17, 1999.

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

- 10.19 Agreement for the Reciprocal Purchase of Capacity On the Systems of Each of the Company and Global Crossing Holdings Ltd. Effective as of May 24, 1999; Incorporated by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 10-K").
- 10.20 Indefeasible Right of Use Agreement between Primus Telecommunications, Inc. and Qwest Communications Corporation dated December 30, 1999; Incorporated by reference to Exhibit 10.20 of the Company's 1999 10-K.
- 10.21 Common Stock Purchase Agreement between the Company and Pilot Network Services, Inc. dated December 28, 1999; Incorporated by reference to Exhibit 10.21 of the Company's 1999 10-K.
- 10.22 Warrant to purchase up to 200,000 shares of common stock of Pilot Network Services, Inc. dated December 28, 1999; Incorporated by reference to Exhibit 10.22 of the Company's 1999 10-K.
- 10.23 Intentionally left blank.
- 10.24 Intentionally left blank.
- 10.25 Intentionally left blank.
- 10.26 Intentionally left blank.
- 10.27 Intentionally left blank.
- 10.28 Form of Promissory Note issued prior to July 30, 2002 by certain officers to the Company; Incorporated by reference to Exhibit 10.28 of the Company's 2000 10-K.
- 10.29 Form of Security Agreement issued prior to July 30, 2002 by certain officers to the Company; Incorporated by reference to Exhibit 10.29 of the Company's 2000 10-K.
- 10.30 Customer Transfer Agreement by and between the Company and Cable & Wireless USA, Inc. dated as of September 13, 2002; Incorporated by reference to Exhibit 2.1 of the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2002.
- 12 Computation of ratio of earnings to fixed charges.\*\*\*\*
- 21.1 Subsidiaries of the Registrant.\*\*\*\*
- 23.1 Consent of Independent Registered Public Accounting Firm.\*
- 31 Certifications.\*
- 32 Certification.\*\*\*
- 99.1 Lock-Up Agreement, as amended, dated November 21, 2003 among the Company and certain stockholders; Incorporated by reference to Exhibit 4.3 of the Resale S-3.
- 99.2 Contractual/Governance Agreement dated November 4, 2003, the Company and certain stockholders; Incorporated by reference to Exhibit 99.1 of the Resale S-3.

\*

Filed herewith.

\*\*

Compensatory benefit plan.

\*\*\*

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.

\*\*\*\*

Incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2003.





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

/s/ JOHN G. PUENTE\*

Director

John G. Puente

October 15, 2004

/s/ DOUGLAS M. KARP\*

Director

Douglas M. Karp

October 15, 2004

/s/ PAUL G. PIZZANI\*

Director

Paul G. Pizzani

October 15, 2004

\*By:

/s/ K. PAUL SINGH

Director

K. Paul Singh  
*Attorney-in-fact*

October 15, 2004

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

	<u>Page</u>
<b><u>Report of Independent Registered Public Accounting Firm</u></b>	F-2
<b>Consolidated Financial Statements:</b>	
<u>Consolidated Statements of Operations for the years ended December 31, 2003 (as restated), 2002 and 2001</u>	F-3
<u>Consolidated Balance Sheets as of December 31, 2003 and 2002</u>	F-4
<u>Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2003, 2002 and 2001</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001</u>	F-6
<u>Consolidated Statements of Comprehensive Loss for the years ended December 31, 2003, 2002 and 2001</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-8
<b>Consolidated Financial Statement Schedule:</b>	
<u>Schedule II. Valuation and Qualifying Accounts Financial Statement Schedule</u>	S-1
F-1	

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Primus Telecommunications Group, Incorporated  
McLean, Virginia

We have audited the accompanying consolidated balance sheets of Primus Telecommunications Group, Incorporated and subsidiaries (the Company) as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity (deficit), cash flows and comprehensive income (loss) for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Primus Telecommunications Group, Incorporated and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the financial statements, effective January 1, 2002 the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets."

As discussed in Note 25 to the financial statements, the accompanying 2003 financial statements have been restated to amend the basic weighted average common shares outstanding and basic and diluted income per common share.

DELOITTE & TOUCHE LLP

McLean, Virginia  
March 12, 2004

(April 26, 2004 as to the guarantor disclosure in Note 23)  
(October 14, 2004 as to the restatement disclosure in Note 25)

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

	<b>For the Year Ended December 31,</b>		
	<b>2003*</b>	<b>2002</b>	<b>2001</b>
NET REVENUE	\$ 1,287,779	\$ 1,024,056	\$ 1,082,475
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	786,308	668,643	767,841
Selling, general and administrative	342,350	254,152	303,026
Depreciation and amortization	86,015	82,239	157,596
Loss on sale of assets	804		
Asset impairment write-down	2,668	22,337	526,309
	1,218,145	1,027,371	1,754,772
INCOME (LOSS) FROM OPERATIONS	69,634	(3,315)	(672,297)
INTEREST EXPENSE	(60,733)	(68,303)	(100,700)
EQUITY INVESTMENT WRITE-OFF AND LOSS	(2,678)	(3,225)	
GAIN ON EARLY EXTINGUISHMENT OF DEBT	12,945	36,675	491,771
INTEREST INCOME AND OTHER INCOME (EXPENSE)	1,075	2,454	(17,951)
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	39,394	8,486	(1,999)
	59,637	(27,228)	(301,176)
INCOME (LOSS) BEFORE INCOME TAXES			
INCOME TAX BENEFIT (EXPENSE)	(5,769)	3,598	(5,000)
	53,868	(23,630)	(306,176)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE			
EXTRAORDINARY ITEM	887		
	54,755	(23,630)	(306,176)
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE			
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE		(10,973)	
	54,755	(34,603)	(306,176)
NET INCOME (LOSS)			
ACCRETED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK	(1,678)		
	53,077	(34,603)	(306,176)
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS			
BASIC INCOME (LOSS) PER COMMON SHARE:			
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	\$ 0.76*	\$ (0.37)	\$ (5.73)
Extraordinary item	0.01		
Cumulative effect of change in accounting principle		(0.17)	
	\$ 0.77*	\$ (0.54)	\$ (5.73)
DILUTED INCOME (LOSS) PER COMMON SHARE:			
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	\$ 0.56*	\$ (0.37)	\$ (5.73)
Extraordinary item	0.01		
Cumulative effect of change in accounting principle		(0.17)	
	\$ 0.57*	\$ (0.54)	\$ (5.73)

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:



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

For the Year Ended December 31,

---

Basic	68,936*	64,631	53,423
Diluted	97,998	64,631	53,423

---

\*  
As restated, see Note 25.

See notes to consolidated financial statements.

F-3

---

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

	<u>December 31,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 64,066	\$ 92,492
Accounts receivable (net of allowance for doubtful accounts receivable of \$20,975 and \$23,406)	200,817	160,421
Prepaid expenses and other current assets	36,930	33,105
	<u>301,813</u>	<u>286,018</u>
Total current assets	301,813	286,018
RESTRICTED CASH	12,463	11,712
PROPERTY AND EQUIPMENT Net	341,167	330,102
GOODWILL Net	59,895	48,963
OTHER INTANGIBLE ASSETS Net	22,711	29,696
OTHER ASSETS	13,115	18,097
	<u>751,164</u>	<u>724,588</u>
TOTAL ASSETS	\$ 751,164	\$ 724,588
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 108,615	\$ 99,653
Accrued interconnection costs	89,993	98,224
Accrued expenses and other current liabilities	69,456	59,534
Accrued income taxes	22,387	12,120
Accrued interest	12,852	18,027
Current portion of long-term obligations	24,385	63,231
	<u>327,688</u>	<u>350,789</u>
Total current liabilities	327,688	350,789
LONG-TERM OBLIGATIONS	518,066	537,757
OTHER LIABILITIES	1,776	3,868
	<u>847,530</u>	<u>892,414</u>
Total liabilities	847,530	892,414
<b>COMMITMENTS AND CONTINGENCIES (Note 11)</b>		
SERIES C CONVERTIBLE PREFERRED STOCK, \$0.01 par value		
559,950 shares authorized, none issued and outstanding in 2003; 438,853 shares issued and outstanding in 2002; liquidation preference of \$32,917		32,297
<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; 88,472,546 and 64,927,406 shares issued and outstanding	885	649
Additional paid-in capital	651,159	607,856
Accumulated deficit	(685,077)	(739,832)
Accumulated other comprehensive loss	(63,333)	(68,796)

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

	December 31, 2003	December 31, 2002
	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>
Total stockholders' deficit	(96,366)	(200,123)
	<u>                    </u>	<u>                    </u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 751,164	\$ 724,588
	<u>                    </u>	<u>                    </u>

See notes to consolidated financial statements.

F-4

---

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
(in thousands)

	Preferred Stock		Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Additional Paid-In Capital			
<b>BALANCE, JANUARY 1, 2001</b>			40,636	\$ 406	\$ 540,321	\$ (399,053)	\$ (57,979)	\$ 83,695
Common shares issued for business acquisitions			265	3	587			590
Common shares issued upon exercise of employee stock options, net of note receivable			229	2	(2)			
Common shares cancelled upon rescission of employee stock options			(229)	(2)	509			507
Common shares issued for employee stock purchase plan			529	5	572			577
Common shares issued for Restricted Stock Plan			18		132			132
Common shares cancelled for Restricted Stock Plan			(81)	(1)	1			
Common shares sold			2,862	30	9,971			10,001
Common shares issued for payment on capital lease liability			50		35			35
Common shares issued for debenture conversion			19,179	192	54,997			55,189
Foreign currency translation adjustment							(37,287)	(37,287)
Unrealized loss on marketable securities							(747)	(747)
Reclassification adjustment for loss on marketable securities included in net loss							15,000	15,000
Net loss						(306,176)		(306,176)
<b>BALANCE, DECEMBER 31, 2001</b>			63,458	635	607,123	(705,229)	(81,013)	(178,484)
Common shares issued upon exercise of stock options			3		2			2
Common shares issued for employee stock purchase plan			282	2	147			149
Common shares cancelled for Restricted Stock Plan			(16)		(15)			(15)
Common shares issued for payment on capital lease liability, net of issuance costs			1,200	12	599			611
Foreign currency translation adjustment							12,217	12,217
Net loss						(34,603)		(34,603)
<b>BALANCE, DECEMBER 31, 2002</b>			64,927	649	607,856	(739,832)	(68,796)	(200,123)
Common shares issued upon exercise of stock options			686	7	1,301			1,308
Common shares issued for compensation					472			472
Common shares issued for 401(k) Plan			136	1	257			258
Common shares issued for employee stock purchase plan			103	1	277			278
					(322)			(322)

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

	Preferred Stock		Common Stock				
Accreted dividends on preferred shares							
Proceeds of preferred shares issuance allocated to beneficial conversion feature					1,356		1,356
Deemed dividend on preferred shares					(1,356)		(1,356)
Reclassification of Series C preferred stock to permanent equity	560	41,514					41,514
Common shares issued for preferred shares conversion	(560)	(41,514)	22,617	226	41,288		
Common shares issued upon exercise of stock warrants			4	1	30		31
Foreign currency translation adjustment						5,463	5,463
Net income						54,755	54,755
<b>BALANCE, DECEMBER 31, 2003</b>		\$ 88,473	\$ 885	\$ 651,159	\$ (685,077)	\$ (63,333)	\$ (96,366)

See notes to consolidated financial statements.

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

	For the Year Ended December 31,		
	2003	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 54,755	\$ (34,603)	\$ (306,176)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for doubtful accounts receivable	22,117	28,089	40,235
Non-cash compensation expense	472		
Stock issuance 401(k) Plan and Restricted Stock Plan	258	(7)	132
Depreciation, amortization and accretion	86,067	82,380	157,796
Asset impairment write-down	2,668	22,337	526,309
Loss on sale of fixed assets	804		
Equity investment loss	2,678	3,225	
Gain on early extinguishment of debt	(12,945)	(36,675)	(491,771)
Minority interest share of loss	(348)	(446)	(132)
Marketable securities write-off			15,000
Unrealized foreign currency transaction gain on intercompany and foreign debt	(41,744)	(6,181)	
Cost investment write-down			5,142
Unrealized loss on trading marketable securities			275
Deferred income taxes		(3,247)	
Cumulative effect of change in accounting principle		10,973	
Changes in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	(26,708)	13,504	(9,875)
(Increase) decrease in prepaid expenses and other current assets	4,355	(709)	11,311
(Increase) decrease in restricted cash	1,292	(6,215)	(295)
Decrease in other assets	3,653	342	1,618
Decrease in accounts payable	(8,896)	(21,185)	(28,622)
Decrease in accrued expenses, accrued income taxes, other current liabilities and other liabilities	(18,613)	(16,684)	(17,530)
Decrease in accrued interest	(2,919)	(797)	(12,896)
Sale of trading marketable securities		532	(872)
Net cash provided by (used in) operating activities	66,946	34,633	(110,351)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(24,746)	(29,367)	(87,771)
Deconsolidation of subsidiaries		(1,358)	
Cash used for business acquisitions, net of cash acquired	(2,175)	(882)	(1,584)
Net cash used in investing activities	(26,921)	(31,607)	(89,355)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of long-term obligations, net	135,925	9,509	15,802
Purchase of the Company's debt securities	(87,193)	(15,043)	(99,845)
Principal payments on capital leases, vendor financing and other long-term obligations	(129,353)	(25,922)	(33,744)
Proceeds from minority interest	39		
Proceeds from sale of convertible preferred stock, net	8,895	32,297	
Proceeds from sale of common stock	1,617	143	10,578
Net cash provided by (used in) financing activities	(70,070)	984	(107,209)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,619	4,529	(2,944)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(28,426)	8,539	(309,859)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	92,492	83,953	393,812
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 64,066	\$ 92,492	\$ 83,953

For the Year Ended December 31,

## SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for interest	\$	61,462	\$ 66,905 \$ 114,276
Non-cash investing and financing activities:			
Capital lease additions	\$	82	\$ 263 \$ 10,404
Leased fiber capacity additions	\$	4,293	\$ 9,255 \$ 64,288
Equipment financing for acquisition of equipment	\$		\$ 14,122
Conversion of debentures to common stock	\$		\$ 55,189
Common stock issued for business acquisition	\$		\$ 590
Common stock issued for payment on capital lease liability	\$		\$ 744 \$ 35
Business acquisitions, financed by long-term obligations	\$	11,242	\$ 9,907 \$
Business acquisition costs, accrued in current liabilities	\$	660	\$
Net settlement of vendor obligations and receivables	\$		\$ 5,746 \$

See notes to consolidated financial statements.

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

	For the Year Ended December 31,		
	2003	2002	2001
NET INCOME (LOSS)	\$ 54,755	\$ (34,603)	\$ (306,176)
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	5,463	12,217	(37,287)
Unrealized gain (loss) on marketable securities:			
Unrealized holding loss arising during period			(747)
Reclassification adjustment for loss included in net loss			15,000
COMPREHENSIVE INCOME (LOSS)	\$ 60,218	\$ (22,386)	\$ (329,210)

See notes to consolidated financial statements.



**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION AND BUSINESS**

Primus Telecommunications Group, Incorporated ("Primus" or the "Company") is a global, facilities-based telecommunications services provider offering an integrated portfolio of international and domestic voice, Internet, voice-over-Internet protocol (VOIP), data and hosting services to business and residential retail customers and other carriers located primarily in the United States, Australia, Canada, the United Kingdom and Europe. The Company serves the demand for high-quality, competitively priced international communications services which is being driven by the globalization of the world's economies, the worldwide trend toward telecommunications deregulation and the growth of Internet and data traffic.

The Company targets customers with significant telecommunications needs, including small- and medium-sized enterprises (SMEs), multinational corporations, residential customers, and other telecommunications carriers and resellers. It provides services over its global network, which consists of:

18 domestic and international gateway switching systems (the hardware/software devices that direct the voice traffic across the network) in North America, Australia, Europe and Japan;

approximately 250 interconnection points to our network, or points of presence (POPs), within our service regions and other markets;

undersea and land-based fiber optic transmission line systems that we own or lease and that carry voice and data traffic across the network; and

global network and data centers that use a high-bandwidth network standard, asynchronous transfer mode, and Internet-based protocol (ATM+IP) to connect with the network. The global VOIP network is based on routers and gateways with an open network architecture which connects our partners in over 150 countries.

The Company is incorporated in the state of Delaware and operates as a holding company of wholly-owned operating subsidiaries in North America, Europe and the Asia-Pacific region.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation* The consolidated financial statements include the Company's accounts, its wholly-owned subsidiaries and all other subsidiaries over which the Company exerts control. 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. During 2002, the Company began using the equity method of accounting for two of its subsidiaries, InterNeXt S.A. ("InterNeXt") and Cards & Parts Telecom GmbH ("Cards & Parts"), and its investment in Bekkoame Internet, Inc ("Bekko"). All intercompany profits, transactions and balances have been eliminated in consolidation. All other investments in affiliates are carried at cost, as the Company does not have significant influence.

*Revenue Recognition and Deferred Revenue* Net revenue is derived from carrying a mix of business, residential and carrier long distance traffic, data and Internet traffic, and also from the provision of local and cellular services. For voice and VOIP, net revenue is earned based on the number of minutes during a call and is recorded upon completion of a call, adjusted for allowance for doubtful accounts receivable, service credits and service adjustments. Revenue for a period is calculated from information

received through the Company's network switches. Customized software has been designed to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides the Company the ability to do a more timely and accurate analysis of revenue earned in a period. Separate prepaid calling cards (including services which allow transmission of mobile voice traffic over our land-based network known as Virtual Mobile Network Services or VMNS) and prepaid calling card software is used to track additional information related to prepaid card usage such as activation date, monthly usage amounts and expiration date. Revenue on these cards is recognized as service is provided until expiration when all unused minutes, which are no longer available to the customers, are recognized as revenue. Net revenue is also earned from the provision of data/Internet services. Data/Internet services include monthly fees collected for the provision of dedicated and dial-up access at various speeds and bandwidths. These fees are recognized as access is provided on a monthly basis. Additionally, service activation and installation fees are deferred and amortized over the longer of the average customer life or the contract term. The Company records payments received in advance for prepaid VMNS and calling card services and services to be provided under contractual agreements, such as Internet broadband and dial-up access, as deferred revenue until such related services are provided. Deferred revenue is reported in accrued expenses and other current liabilities. Net revenue represents gross revenue, net of allowance for doubtful accounts receivable, service credits and service adjustments.

*Cost of Revenue* Cost of revenue includes network costs that consist of access, transport and termination costs. The majority of the Company's cost of revenue is variable, primarily based upon minutes of use, with transmission and termination costs being the most significant expense. Such costs are recognized when incurred in connection with the provision of telecommunications services.

*Foreign Currency Transaction* Foreign currency transactions are transactions denominated in a currency other than a subsidiary's functional currency. A change in the exchange rates between a subsidiary's functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of the transaction. That increase or decrease in expected functional currency cash flows is reported by the Company as a foreign currency transaction gain (loss). The primary component of the Company's foreign currency transaction gain (loss) is due to written agreements in place with certain subsidiaries in foreign countries regarding intercompany loans. The Company anticipates repayment of these loans in the foreseeable future, and recognizes the realized and unrealized gains or losses on these transactions that result from foreign currency changes in the period in which they occur as foreign currency transaction gain (loss).

*Income Taxes* The Company recognizes income tax expense for financial reporting purposes following the asset and liability approach for computing deferred income taxes. Under this method, the deferred tax assets and liabilities are determined based on the difference between financial reporting and tax bases of assets and liabilities based on enacted tax rates. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

*Foreign Currency Translation* The assets and liabilities of the Company's foreign subsidiaries are translated at the exchange rates in effect on the reporting date. The net effect of such translation gains and losses are reflected within accumulated other comprehensive loss in the stockholders' deficit section of the balance sheet. Income and expenses are translated at the average exchange rate during the period.

*Cash and Cash Equivalents* Cash and cash equivalents are comprised principally of amounts in money market accounts, operating accounts, certificates of deposit, and overnight repurchase agreements with original maturities of three months or less. Cash and cash equivalents are stated at cost which approximates market value.

*Investments* Investments in debt and marketable equity securities are classified as trading, available-for-sale, or held-to-maturity. Investments classified as trading are reported at fair value with unrealized gains and losses included in income. Those classified as available-for-sale are reported at fair value with unrealized gains and losses recorded as a component of accumulated other comprehensive loss. Those classified as held-to-maturity are recorded at amortized cost. The cost of investments sold is determined by specific identification. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such determination at each balance sheet date. There have been no reclassifications between investment categories.

Investments in privately held corporate equity securities are recorded at the lower of cost or fair value. For these non-quoted investments, the Company's policy is to review regularly the assumptions underlying the financial performance of the privately held companies in which the investments are maintained. If and when a determination is made that a decline in fair value below the cost basis is other than temporary, the related investment is written down to its estimated fair value.

*Restricted Cash* Restricted cash consists of bank guarantees and certificates of deposit. Restricted cash is stated at cost which approximates market value.

*Advertising Costs* In accordance with Statement of Position 93-7, "Reporting on Advertising Costs," costs for advertising are expensed as incurred except for direct-response advertising costs, which are capitalized and amortized over the lesser of the life of the customers obtained from these efforts or twelve months following the provisioning of the customer.

*Property and Equipment* Property and equipment is recorded at cost less accumulated depreciation, which is provided on the straight-line method over the estimated useful lives of the assets. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity of the assets as well as expenditures necessary to place assets into readiness for use. Expenditures for maintenance and repairs are expensed as incurred. The estimated useful lives of property and equipment are as follows: network equipment, including fiber optic and submarine cable 5 to 25 years, furniture and equipment 5 years, leasehold improvements and leased equipment shorter of lease or useful life. In accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," costs for internal use software that are incurred in the preliminary project stage and in the post-implementation stage are expensed as incurred. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software.

*Fiber Optic and Submarine Cable Arrangements* The Company obtains capacity on certain fiber optic and submarine cables under three types of arrangements. The Indefeasible Right of Use ("IRU") basis provides the Company the right to use a cable for the estimated economic life of the asset according to the terms of the IRU agreement with most of the rights and duties of ownership. The Minimum Assignable Ownership Units ("MAOU") basis provides the Company an ownership interest in the fiber optic cable with certain rights to control and to manage the facility. The Company accounts for both IRU and MAOU agreements under network equipment and depreciates the recorded asset over the term of the agreement which is generally 25 years. The Company also enters into shorter-term arrangements with other carriers which provides the Company the right to use capacity on a cable but without any rights and duties of ownership. Under these shorter-term arrangements, the costs are expensed in the period the services are provided.

*Goodwill and Other Intangible Assets* In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," the Company tests goodwill for impairment at least on an annual basis. Testing for impairment is a two-step process as prescribed in SFAS No. 142. The first step is a screen for potential impairment, while the second step measures the amount of impairment, if any. Under the guidelines of SFAS No. 142, the Company is required to perform an impairment test at least on an annual basis at any time during the fiscal year provided the

test is performed at the same time every year. The Company has elected October 1 as its testing date. An impairment loss would be recognized when the assets' fair value is below their carrying value. See Note 7 "Goodwill and Other Intangible Assets."

*Valuation of Long-Lived Assets* The Company evaluates the recoverability of its long-lived assets under the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires the review for impairment of long-lived assets, whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable and exceeds its fair value.

Significant factors, which would trigger an impairment review, include the following:

significant negative industry trends,

significant changes in technology,

significant underutilization of assets, and

significant changes in how assets are used or are planned to be used.

When such an event occurs, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. These impairment evaluations involve estimates of asset useful lives and future cash flows. If the undiscounted expected future cash flows are less than the carrying amount of the asset and the carrying amount of the asset exceeds its fair value, an impairment loss is recognized. Management utilizes an expected present value technique, which uses a risk-free rate and multiple cash flow scenarios reflecting the range of possible outcomes, to estimate fair value of the asset. Actual useful lives and cash flows could differ from those estimated by management using these techniques, which could have a material affect on our results of operations and financial position. The Company recorded asset impairment charges of \$2.7 million, \$22.3 million and \$526.3 million in 2003, 2002 and 2001, respectively, primarily related to goodwill, customer lists and equipment with carrying value above its estimated fair market value.

*Deferred Financing Costs* Deferred financing costs incurred in connection with the 3<sup>3</sup>/<sub>4</sub>% convertible senior notes due 2010 ("2003 Convertible Senior Notes"), the 5<sup>3</sup>/<sub>4</sub>% convertible subordinated debentures due 2007 ("2000 Convertible Debentures"), the 12<sup>3</sup>/<sub>4</sub>% senior notes due 2009 ("October 1999 Senior Notes"), the 11<sup>1</sup>/<sub>4</sub>% senior notes due 2009 ("January 1999 Senior Notes"), the 9<sup>7</sup>/<sub>8</sub>% senior notes due 2008 ("1998 Senior Notes"), the 11<sup>3</sup>/<sub>4</sub>% senior notes due 2004 ("1997 Senior Notes"), and other financing arrangements are reflected within other assets and are being amortized over the life of the respective financing arrangements. As the Company makes debt repurchases, corresponding amounts of deferred financing costs are written off in determining the gain or loss on early extinguishment of debt.

*Stock-Based Compensation* At December 31, 2003, the Company had three stock-based employee compensation plans, which are described more fully in Note 14. The Company uses the intrinsic value method to account for these plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Stock-based employee compensation cost of \$0.7 million for the twelve months ended December 31, 2003 under the intrinsic value method is reflected in net income. The following table illustrates the effect on net loss and loss per share if the company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" to stock-based employee compensation.

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

	For the Year Ended December 31,		
	2003	2002	2001
Income (loss) attributable to common stockholders, as reported	\$ 53,077	\$ (34,603)	\$ (306,176)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	730	(7)	132
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of income taxes	(3,493)	(1,459)	(10,202)
Pro forma income (loss) attributable to common stockholders	\$ 50,314	\$ (36,069)	\$ (316,246)
Basic income (loss) per common share:			
As reported	\$ 0.77	\$ (0.54)	\$ (5.73)
Pro forma	\$ 0.73	\$ (0.56)	\$ (5.92)
Diluted income (loss) per common share:			
As reported	\$ 0.57	\$ (0.54)	\$ (5.73)
Pro forma	\$ 0.53	\$ (0.56)	\$ (5.92)
Weighted average common shares outstanding:			
Basic	68,936	64,631	53,423
Diluted	97,998	64,631	53,423

The weighted average fair value at date of grant for options granted during 2003, 2002 and 2001 was \$0.82, \$0.88 and \$0.83 per option, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2003	2002	2001
Expected dividend yield	0%	0%	0%
Expected stock price volatility	66%	97%	162%
Risk-free interest rate	2.4%	2.4%	4.0%
Expected option term	4 years	4 years	4 years

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

*Concentration of Credit Risk* Financial instruments that potentially subject the Company to concentration of credit risk principally consist of trade accounts receivable. The Company performs ongoing credit evaluations of its larger carrier and retail business customers but generally does not require collateral to support customer receivables. The Company maintains its cash with high quality credit institutions, and its cash equivalents are in high quality securities.

*Income/(Loss) Per Common Share* Basic income/(loss) per common share is computed using the weighted average number of shares of common stock outstanding during the year. Diluted income/(loss) per share is computed using the weighted average number of shares of common stock, adjusted for the dilutive effect of potential common stock and related income. Potential common stock, computed using the treasury stock method or the if-converted method, includes options, warrants, convertible preferred stock and convertible debt securities. The potential common stock included in the diluted income per common share for the twelve months ended December 31, 2003 was 29,061,885 with

a related income effect of \$3.1 million. In 2003, an additional 1,942,039 shares of potential common stock were not included in the diluted income per common share calculation as the effect was antidilutive. In 2002 and 2001, the Company incurred a loss, and the effect of potential common stock was excluded from the computation of diluted loss per share as the effect was antidilutive. If the effect of potential common stock had been included, there would have been additional weighted average common shares outstanding of 1,445,044 shares and 3,388,888 shares for the years ended December 31, 2002 and 2001, respectively.

#### ***New Accounting Pronouncements***

In May 2003, the Financial Accounting Standards Board ("FASB") adopted SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify financial instruments that are within the scope of SFAS No. 150 as a liability, rather than within a separate section between liabilities and stockholders' equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material effect on the Company's financial position, results of operations or cash flows.

In January 2003, FASB issued FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 clarifies the application of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements," to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Such entities are referred to as variable interest entities. FIN No. 46 applies immediately to variable interest entities created or acquired after January 31, 2003. With respect to variable interest entities created prior to February 1, 2003, FIN No. 46 was originally scheduled to be effective in the first interim period beginning after June 15, 2003. However, in October 2003, the FASB issued Staff Position 46.6, which deferred the effective date of application for entities created or acquired before February 1, 2003 until the first period ending after December 15, 2003. The adoption of FIN No. 46 did not have a material effect on the Company's consolidated financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has not elected to adopt the fair value based method of accounting for stock-based compensation and therefore believes SFAS No. 148 will not have a material effect on the Company's consolidated financial statements. The amended disclosure requirements have been adopted in the Notes to Consolidated Financial Statements.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The Interpretation addresses disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The Interpretation also clarifies requirements related to the recognition of a liability by a guarantor at the inception of a guarantee for the fair value of the obligations the guarantor has undertaken in issuing that guarantee. The initial recognition and measurement provisions of the Interpretation are applicable on a prospective basis to guarantees issued

or modified after December 31, 2002. The adoption of the effective portions of FIN No. 45 did not have a material effect on the Company's consolidated financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 replaces Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material effect on the Company's consolidated financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 requires the classification of gains and losses from extinguishments of debt as extraordinary items only if they meet certain criteria for such classification in APB No. 30, "Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions." Any gain or loss on extinguishment of debt classified as an extraordinary item in prior periods that does not meet the criteria in APB No. 30 must be reclassified. These provisions are effective for fiscal years beginning after May 15, 2002. Additionally, SFAS No. 145 requires sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. These lease provisions are effective for transactions occurring after May 15, 2002. The Company adopted the provisions of SFAS No. 145 during the three months ended March 31, 2003. It was determined that all of the Company's gains from early extinguishment of debt for the years ended December 31, 2003, 2002, and 2001 did not meet the criteria established in APB No. 30 to be classified as extraordinary items. For the twelve months ended December 31, 2003, a gain of \$12.9 million from early extinguishment of debt was reported as income from continuing operations. For the twelve months ended December 31, 2002 and 2001, gains on the early extinguishment of debt of \$36.7 million and \$491.8 million were reclassified to income from continuing operations to maintain comparability for the reported periods.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 did not have a material effect on the Company's consolidated financial position or results of operations.

In June 2001, the FASB issued two new statements: SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets."

Effective January 1, 2002, the Company adopted SFAS No. 141 that requires business combinations entered into after June 30, 2001 to be accounted for using the purchase method of accounting. Specifically identifiable intangible assets, other than goodwill, are to be amortized over their estimated useful economic life.

SFAS No. 142 requires that goodwill not be amortized, but should be tested for impairment at least annually. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and applies to all goodwill and other intangible assets recognized in an entity's balance sheet at that date, regardless of when those assets were initially recognized. Effective January 1, 2002, the Company adopted SFAS No. 142 and in connection with its adoption, discontinued the amortization of goodwill and reviewed the estimated useful lives of previously recorded identifiable intangible assets, principally

customer lists. Additionally, the Company recorded an impairment loss of \$11.0 million related to the InterNeXt reporting unit which has been reflected as a cumulative effect of a change in accounting principle. The Company followed the two-step process prescribed in SFAS No. 142 to test its goodwill for impairment under the transitional goodwill impairment test. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. Under the guidelines of SFAS No. 142, the Company is required to perform an impairment test at least on an annual basis at any time during the fiscal year provided the test is performed at the same time every year. On October 1, 2003, the Company performed its annual test and concluded no impairment existed. See Note 7 "Goodwill and Other Intangible Assets."

*Reclassification* Certain previous year amounts have been reclassified to conform with current year presentations.

### 3. ACQUISITIONS

In November 2003, the Company acquired 100% of MIPPS Incorporated ("MIPPS"), a Canadian wireless Internet service provider (ISP), for \$1.0 million in cash, \$0.7 million of which remained payable at December 31, 2003 and will be paid over a 36 month period beginning in December 2004.

In June 2003, the Company acquired 100% of Telesonic Communications, Inc. ("TCI"), a Canadian prepaid card company, for \$6.1 million in cash. \$2.4 million remained payable at December 31, 2003, \$1.2 million of which will be paid in 2004 and \$1.2 million of which will be paid in 2005. The terms of the acquisition agreement provide for additional consideration to be paid if the acquired company's adjusted revenues exceed certain targeted levels. The additional amount is calculated as a percentage of the excess earned over a specified target with no stated maximum, and will be recorded as additional cost of the acquired company in accordance with SFAS No. 141, "Business Combinations."

In May 2003, the Company acquired 100% of Echo OnLine Internet Inc. and subsidiaries ("Echo"), a Canadian ISP, for \$2.0 million in cash, \$0.7 million of which remained payable at December 31, 2003 and will be paid in April 2004.

In April 2003, the Company acquired 100% of Onsite Access ("Onsite"), a Canadian local service provider to business customers, for \$0.5 million in cash. See Note 22 "Extraordinary Item."

In March 2003, the Company acquired the assets of Weslink Datalink Corporation ("Interlynx"), a Canadian ISP, for \$1.1 million in cash.

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 \$7.6 million and \$9.9 million remained payable at December 31, 2003 and 2002, respectively. The purchase price has been paid through a deferred payment arrangement over a two-year period, ending in December 2004, and bears no interest.

The Company has accounted for all of these acquisitions using the purchase method of accounting, and accordingly, the net assets and results of operations of the acquired companies have been included in the Company's financial statements since the respective acquisition dates. The purchase prices, including direct costs, of the Company's acquisitions were allocated to the net assets acquired, including intangible assets, and liabilities assumed, based on their respective fair values at the acquisition dates. The aggregate purchase price for the above acquisitions was primarily allocated to goodwill, customer lists and cash. If these companies were acquired on January 1, 2003 and January 1, 2002, the results of their operations would not be material to the consolidated financial statements of the Company, and therefore, pro forma financial information has not been disclosed. The impact of each of these acquisitions is immaterial to the Company's consolidated balance sheet, therefore, condensed balance sheet information is not presented in this footnote.



**4. MARKETABLE SECURITIES**

In January 2002, the Company's consolidated subsidiary in Japan, Bekko, sold all of its trading marketable securities for \$0.5 million. The Company recorded an unrealized loss of \$0.3 million related to the trading marketable securities in interest income and other income (expense) for the year ended December 31, 2001 and incurred no additional loss in 2002 and 2003. The Company had no trading marketable securities at December 31, 2003 and 2002.

In connection with a strategic business arrangement with Pilot Network Services ("Pilot"), in January 2000, the Company made a \$15.0 million strategic investment in Pilot pursuant to which the Company purchased 919,540 shares, or 6.3%, of Pilot's common stock at a price of \$16.3125 per share, and received a warrant to purchase an additional 200,000 shares at \$25.00 per share. This investment was classified as available-for-sale. At December 31, 2000, the current market value was \$0.7 million and the unrealized loss on this investment was \$14.3 million. In March 2001, the Company wrote-off the investment of \$15.0 million which is reported in interest income and other income (expense). Based on current market quotes, the Company considered the decline in fair value to be permanent.

**5. ADVERTISING**

The Company expenses advertising costs as incurred except for direct-response advertising costs, which are capitalized and amortized over the expected period of future benefits. Direct-response advertising consists primarily of direct-mail advertisements, newspaper and television advertising. These costs are amortized over the lesser of the life of the customers obtained from these efforts or twelve months following the provisioning of the customer. The types of costs capitalized as of December 31, 2003 and 2002 include external costs associated with production and design, newspaper and magazine space, telephone solicitation, television and radio airtime, and payroll and payroll-related costs for the direct-response advertising activities of employees who are directly associated with and devote time to direct-response advertising. At December 31, 2003 and 2002, capitalized advertising costs of \$0.5 million and \$6.5 million, respectively, were included in prepaid expenses and other current assets. The reduction in the balance is because of the Company's shift from deferrable to non-deferrable types of advertising. Advertising expense for the years ended December 31, 2003, 2002 and 2001 was \$34.5 million, \$26.7 million and \$36.1 million, respectively.

**6. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following (in thousands):

	December 31,	
	2003	2002
Network equipment	\$ 737,348	\$ 632,103
Furniture and equipment	65,567	57,156
Leasehold improvements	18,287	16,733
Construction in progress	2,870	219
<b>Subtotal</b>	<b>824,072</b>	<b>706,211</b>
Less: Accumulated depreciation	(482,905)	(376,109)
<b>Total property and equipment, net</b>	<b>\$ 341,167</b>	<b>\$ 330,102</b>

Depreciation and amortization expense for property and equipment including equipment under capital leases and vendor financing obligations for the years ended December 31, 2003, 2002 and 2001 was \$65.4 million, \$60.4 million and \$97.7 million, respectively. The Company recorded asset impairment charges of \$2.7 million, \$18.1 million and \$149.9 million in 2003, 2002 and 2001, respectively. See Note 19 "Asset Impairment."

At December 31, 2003, the total equipment under capital lease and vendor financing obligations consisted of \$60.9 million of network equipment and \$0.4 million of administrative equipment, with accumulated depreciation of \$23.2 million and \$0.2 million, respectively. At December 31, 2002, the total equipment under capital lease and vendor financing obligations consisted of \$138.8 million of network equipment and \$0.6 million of administrative equipment, with accumulated depreciation of \$63.0 million and \$0.2 million, respectively.

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	December 31,					
	2003			2002		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	\$ 166,446	\$ (145,099)	\$ 21,347	\$ 146,394	\$ (117,079)	\$ 29,315
Other	2,622	(1,258)	1,364	1,354	(973)	381
<b>Total</b>	<b>\$ 169,068</b>	<b>\$ (146,357)</b>	<b>\$ 22,711</b>	<b>\$ 147,748</b>	<b>\$ (118,052)</b>	<b>\$ 29,696</b>

Amortization expense for customer lists and other intangible assets for the years ended December 31, 2003, 2002 and 2001 was \$20.6 million, \$21.8 million and \$35.1 million, respectively. During the year ended December 31, 2003 and 2002, the Company acquired \$9.5 million and \$10.5 million of customer lists which have a weighted average life of 2.3 and 3.0 years, respectively. The useful life of the Company's customer lists range from two to five years. The Company expects amortization expense for customer lists and other intangible assets for the fiscal years ended December 31, 2004, 2005, 2006, 2007 and 2008 to be approximately \$13.3 million, \$7.3 million, \$1.2 million, \$0.5 million and \$0.4 million, respectively. An asset impairment charge of \$0.5 million was recorded in 2002, and was reflected in the asset impairment expense for customer lists for the year ended December 31, 2002. There was no intangible asset impairment in 2003 and 2001.

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

	December 31,	
	2003 Net Carrying Amount	2002 Net Carrying Amount
Goodwill	\$ 59,895	\$ 48,963

Amortization expense for goodwill for the year ended December 31, 2001 was \$24.8 million. An asset impairment charge of \$14.7 million was recorded in 2002 and was reflected in the accumulated amortization balance for goodwill for the years ended December 31, 2003 and 2002.

The changes in the carrying amount of goodwill for the year ended December 31, 2003 are as follows (in thousands):

	<u>North America</u>	<u>Europe</u>	<u>Asia- Pacific</u>	<u>Total</u>
Balance as of January 1, 2002	\$ 41,311	\$ 15,773	\$ 6,301	\$ 63,385
Cumulative effect of a change in accounting principle		(10,973)		(10,973)
Deconsolidation of a subsidiary		(298)		(298)
Disposal of iPrimus Telecommunications GmbH		(3,756)		(3,756)
Effect of change in foreign currency exchange rates	(391)	864	132	605
Balance as of December 31, 2002	40,920	1,610	6,433	48,963
Goodwill acquired during period	7,067			7,067
Effect of change in foreign currency exchange rates	2,038	317	1,510	3,865
Balance as of December 31, 2003	\$ 50,025	\$ 1,927	\$ 7,943	\$ 59,895

A reconciliation of income (loss) and income (loss) per share reported in the Consolidated Statements of Operations to the pro forma amounts adjusted for the exclusion of goodwill amortization is presented below. For purposes of the calculation of the tax effect, the Company assumed a zero percent effective tax rate applied to the deductible goodwill based on the applicable effective tax rate for the periods presented. The pro forma results reflecting the exclusion of goodwill amortization have been prepared only to demonstrate the impact of goodwill amortization on income (loss) and income (loss) per share and are for comparative purposes only.

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

	For the Year Ended December 31,		
	2003	2002	2001
	(in thousands, except per share amounts)		
Reported income (loss)	\$ 54,755	\$ (34,603)	\$ (306,176)
Add: goodwill amortization, net of income taxes			24,818
Adjusted income (loss)	54,755	(34,603)	(281,358)
Less: extraordinary item	(887)		
Less: cumulative effect of change in accounting principle		10,973	
Adjusted income (loss) before extraordinary item and cumulative effect of change in accounting principle	\$ 53,868	\$ (23,630)	\$ (281,358)
<b>Reported income (loss) per common share:</b>			
<b>Basic:</b>			
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	\$ 0.76	\$ (0.37)	\$ (5.73)
Extraordinary item	0.01		
Cumulative effect of change in accounting principle		(0.17)	
Net income (loss)	\$ 0.77	\$ (0.54)	\$ (5.73)
<b>Diluted:</b>			
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	\$ 0.56	\$ (0.37)	\$ (5.73)
Extraordinary item	0.01		
Cumulative effect of change in accounting principle		(0.17)	
Net income (loss)	\$ 0.57	\$ (0.54)	\$ (5.73)
Add: goodwill amortization, net of taxes	\$	\$	\$ 0.46
<b>Adjusted income (loss) per common share:</b>			
<b>Basic:</b>			
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	\$ 0.76	\$ (0.37)	\$ (5.27)
Extraordinary item	0.01		
Cumulative effect of change in accounting principle		(0.17)	
Net income (loss)	\$ 0.77	\$ (0.54)	\$ (5.27)
<b>Diluted:</b>			
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	\$ 0.56	\$ (0.37)	\$ (5.27)
Extraordinary item	0.01		
Cumulative effect of change in accounting principle		(0.17)	
Net income (loss)	\$ 0.57	\$ (0.54)	\$ (5.27)
<b>Weighted average number of common shares outstanding</b>			
Basic	68,936	64,631	53,423

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

For the Year Ended December 31,

Diluted

97,998

64,631

53,423

F-19

**8. LONG-TERM OBLIGATIONS**

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

	December 31, 2003	December 31, 2002
Obligations under capital leases	\$ 4,040	\$ 8,551
Equipment financing		72,945
Leased fiber capacity	40,509	36,107
Financing facility and other	22,626	42,948
Senior notes	272,157	369,318
Convertible senior notes	132,000	
Convertible subordinated debentures	71,119	71,119
Subtotal	542,451	600,988
Less: Current portion of long-term obligations	(24,385)	(63,231)
Total long-term obligations	\$ 518,066	\$ 537,757

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

*Senior Notes and Convertible Debentures*

In September 2003, the Company completed the sale of \$132 million in aggregate principal amount of the 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. 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 the 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, 2001.

In October 1999, the Company completed the sale of \$250 million in aggregate principal amount of the October 1999 Senior Notes. The October 1999 Senior Notes are due October 15, 2009, with semi-annual interest payments due on October 15<sup>th</sup> and April 15<sup>th</sup> with early redemption at the Company's option at any time after October 15, 2004. During the years ended December 31, 2002,

2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In June and September 2002, the Company retired all of the October 1999 Senior Notes that it had previously purchased in the principal amount of \$134.3 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. See the table below for detail on debt repurchases since December 31, 2001. See Note 23 "Subsequent Events."

In January 1999, the Company completed the sale of \$200 million in aggregate principal amount of the January 1999 Senior Notes with semi-annual interest payments due on January 15th and July 15th. The January 1999 Senior Notes are due January 15, 2009 with early redemption at the Company's option at any time after January 15, 2004. In June 1999, in connection with the Telegroup acquisition, the Company issued \$45.5 million in aggregate principal amount of its 11<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. See the table below for detail on debt repurchases since December 31, 2001. See Note 23 "Subsequent Events."

On May 19, 1998, the Company completed the sale of \$150 million in aggregate principal amount of the 1998 Senior Notes with semi-annual interest payments due on May 15th and November 15th. The 1998 Senior Notes are due May 15, 2008 with early redemption at the Company's option any time after May 15, 2003. During the three months ended June 30, 2003 and the years ended December 31, 2002 and 2001, the Company reduced the principal balance of these senior notes through open market purchases. In June, October and December 2002 and April 2003, the Company retired all of the 1998 Senior Notes that it had previously purchased in the principal amount of \$103.4 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. See the table below for detail on debt repurchases since December 31, 2001. See Note 23 "Subsequent Events."

On August 4, 1997, the Company completed the sale of \$225 million in aggregate principal amount of the 1997 Senior Notes and warrants to purchase 392,654 shares of its common stock, with semi-annual interest payments due on February 1st and August 1st. The 1997 Senior Notes were due August 1, 2004 with early redemption at the Company's option any time after August 1, 2003, at par plus accrued interest to the date of redemption. During the nine months ended September 30, 2003 and the years ended December 31, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In January 2003, the Company entered into a Supplemental Indenture to amend the terms of the 1997 Senior Notes to eliminate substantially all of the covenants relating to such notes. In June 2002, November 2002, January 2003 and February 2003, the Company retired \$181.4 million in principal amount of the 1997 Senior Notes that it had previously purchased. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. In September and October 2003, the Company redeemed the remaining \$43.6 million principal amount of the 1997 Senior Notes at par plus accrued interest to the date of redemption. The warrants have an exercise price of \$9.075 and 330,097 warrants remained outstanding as of December 31, 2003. See the table below for detail on debt repurchases since December 31, 2001.

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

The following table shows the changes in the balances of the Company's senior notes and debentures for the years ended December 31, 2003 and 2002.

### For the year ended December 31, 2003

	Balance at December 31, 2002	Debt Issuance	Principal Purchases	Warrant Amortization and Write-off	Balance at December 31, 2003	Cash Paid for Purchase of Principal
2003 3 <sup>3</sup> / <sub>4</sub> % Convertible Senior Notes due 2010	\$	\$ 132,000,000	\$	\$	\$ 132,000,000	\$
2000 5 <sup>3</sup> / <sub>4</sub> % Convertible Debentures due 2007	71,119,000				71,119,000	
October 1999 12 <sup>3</sup> / <sub>4</sub> % Senior Notes due 2009	115,680,000				115,680,000	
January 1999 11 <sup>1</sup> / <sub>4</sub> % Senior Notes due 2009	116,420,000		(6,523,000)		109,897,000	4,052,414
1998 9 <sup>7</sup> / <sub>8</sub> % Senior Notes due 2008	50,220,000		(3,640,000)		46,580,000	2,261,350
1997 11 <sup>3</sup> / <sub>4</sub> % 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>

### For the year ended December 31, 2002

	Balance at December 31, 2001	Debt Issuance	Principal Purchases	Warrant Amortization and Write-off	Balance at December 31, 2002	Cash Paid for Purchase of Principal
2000 5 <sup>3</sup> / <sub>4</sub> % Convertible Debentures due 2007	\$ 71,119,000	\$	\$	\$	\$ 71,119,000	\$
October 1999 12 <sup>3</sup> / <sub>4</sub> % Senior Notes due 2009	126,680,000		(11,000,000)		115,680,000	1,485,000
January 1999 11 <sup>1</sup> / <sub>4</sub> % Senior Notes due 2009	139,587,000		(23,167,000)		116,420,000	3,782,045
1998 9 <sup>7</sup> / <sub>8</sub> % Senior Notes due 2008	69,020,000		(18,800,000)		50,220,000	9,776,000
1997 11 <sup>3</sup> / <sub>4</sub> % Senior Notes due 2004	86,857,345			140,382	86,997,727	
<b>Total</b>	<b>\$ 493,263,345</b>	<b>\$</b>	<b>\$ (52,967,000)</b>	<b>\$ 140,382</b>	<b>\$ 440,436,727</b>	<b>\$ 15,043,045</b>

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

In December 1999, the Company agreed to purchase \$23.2 million of fiber capacity from Qwest Communications, which provides the Company with an ATM + IP based international broadband backbone. The backbone is comprised of nearly 11,000 route miles of fiber optic cable in the United States and overseas as well as private Internet peering at select sites in the United States and overseas. In March 2000, the Company agreed to purchase an additional \$20.8 million of fiber capacity and as of June 30, 2001 had fulfilled the total purchase obligation. As of June 30, 2002, the Company had made cash payments of \$27.6 million and in June 2002 settled its outstanding payment obligation of \$16.4 million with Qwest for \$10 million in cash, which has been fully paid as of December 31, 2003. The Company recorded this transaction in accordance with FIN No. 26, "Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease," and accordingly, the transaction resulted in a reduction of property and equipment of \$7.2 million during the three months ended June 30, 2002.

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



(7.12% at December 31, 2003). The Company further agreed to purchase \$12.2 million of additional fiber optic capacity from SCCL under the IRU agreement. As of December 31, 2003, the Company had fulfilled the total purchase obligation. At December 31, 2003 and 2002, the Company had a liability recorded under this agreement in the amount of \$18.6 million and \$18.4 million, respectively.

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity in Australia for \$38.3 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 December 31, 2003 and 2002, the Company had a liability recorded in the amount of \$21.9 million (29.2 million AUD) and \$17.2 million (23.0 million AUD), respectively.

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

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

During the year ended December 31, 1999, Ericsson Financing Plc ("Ericsson") provided the Company with \$37.9 million (21.3 million British pounds ("GBP")) in financing to fund the purchase of network equipment, secured by the equipment purchased. The Company had liabilities of \$15.2 million recorded at December 31, 2002. In April 2003, the Company settled its outstanding payment obligation of \$14.9 million for approximately \$10.6 million (one payment of 5.9 million GBP and one payment of 8.7 million Danish Krona), which was paid in April 2003.

In March 2002, the Company consummated a transaction financing accounts receivable of a certain wholly-owned subsidiary with Textron Financial Inc. ("Textron"). The Company pledged \$11.3 million and \$15.5 million as collateral as of December 31, 2003 and 2002, respectively, and recorded a liability of \$0.3 million and \$14.9 million, respectively, which is included in current portion of long-term obligations as the financing is payable on demand. This financing will terminate by March 2005 and bears fees at a rate of Bloomberg BBSWIB rate plus 5.75% per annum (10.66% at December 31, 2003), plus an additional \$150,000 per annum. In July 2001, the Company consummated a transaction financing accounts receivable of its wholly-owned Canadian subsidiary, Primus Canada, with Textron

Financial Canada Limited, an affiliate of Textron. The Company pledged \$15.3 million of its accounts receivable as collateral as of December 31, 2002 and none as of December 31, 2003, and recorded a liability of \$10.4 million as of December 31, 2002, which is included in current portion of long-term obligations as the financing is payable on demand. This financing will terminate in March 2004 and bears fees at a rate of Canada Prime Rate plus 3.25% (7.75% at December 31, 2003), plus an additional \$296,250 per annum. These transactions with Textron collectively permit borrowings of up to \$29.8 million, depending on the level of customer receivables.

In September 2002, the Company signed an agreement to acquire the United States-based retail switched voice services customer base of 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 \$7.6 million and \$9.9 million remained payable at December 31, 2003 and 2002, respectively. The purchase price has been paid through a deferred payment arrangement over a two-year period, ending in December 2004, and bears no interest.

During the three months ended March 31, 2003, Primus Canada signed an agreement with The Manufacturers Life Insurance Company ("Manulife") to fund \$15.4 million (20.0 million Canadian dollars (CAD)) for acquisitions. As of December 31, 2003, \$10.0 million (13.0 million CAD) had been utilized under this facility. The funding is payable in full in March 2005 and bears an interest rate of 15.0% per annum. See Note 23 "Subsequent Events."

## 9. INCOME TAXES

The total (benefit) provision for income tax for the years ended December 31, 2003, 2002, and 2001 is as follows (in thousands):

		<u>2003</u>	<u>2002</u>	<u>2001</u>
Current:	Federal	\$ 3,826	\$ (1,506)	\$ 5,000
	State			
	Foreign	2,634	1,155	
		<u>6,460</u>	<u>(351)</u>	<u>5,000</u>
Deferred:	Federal			
	State			
	Foreign	(691)	(3,247)	
		<u>(691)</u>	<u>(3,247)</u>	
Total Tax (Benefit) Provision		<u>\$ 5,769</u>	<u>\$ (3,598)</u>	<u>\$ 5,000</u>

On March 9, 2002, the Job Creation and Workers Assistance Act of 2002 was signed into law. The new law suspends the 90% limitation of net operating loss carryforward (NOL) for alternative minimum taxes (AMT). In accordance with SFAS No. 109, "Accounting for Income Taxes," any changes in tax laws or rates should be reflected in the year of enactment. Accordingly in the first quarter of 2002, the \$5 million tax provision recorded for the alternative minimum taxes at December 31, 2001 and the AMT credit carryforward were reversed.

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

The (benefit) provision for income taxes differed from the amount computed by applying the federal statutory income tax rate to income (loss) before income taxes, extraordinary items, and cumulative effect of a change in accounting principle due to the following (in thousands):

	For the Year Ended December 31,		
	2003	2002	2001
Tax provision (benefit) at federal statutory rate	\$ 20,578	\$ (12,988)	\$ (104,100)
State income tax, net of federal benefit		(723)	
Effect of rate differences outside the United States	(2,653)	(6,005)	14,628
Nondeductible items	1,146		30,000
Increase (decrease) in valuation allowance	(13,302)	20,313	63,368
Goodwill amortization			1,791
Reversal of AMT credit carryforward		(5,000)	
Other		805	(687)
<b>Income taxes</b>	<b>\$ 5,769</b>	<b>\$ (3,598)</b>	<b>\$ 5,000</b>

Deferred income taxes are recognized to account for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts of each period-end, based on enacted tax laws and statutory income tax rates applicable to the periods in which the differences are expected to affect taxable income. Deferred income taxes reflect the net income tax effect of temporary differences between the basis of assets and liabilities for financial reporting purposes and for income tax purposes. Net deferred tax balances are comprised of the following:

	December 31,	
	2003	2002
Deferred tax assets	\$ 248,796	\$ 301,262
Valuation allowance	(208,414)	(245,950)
Deferred tax liabilities	(36,427)	(52,048)
<b>Net deferred taxes</b>	<b>\$ 3,955</b>	<b>\$ 3,264</b>

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

The significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2003	2002
<b>Current</b>		
Allowance for Bad Debt	\$ 8,349	\$ 5,951
Other	2,376	(4,566)
Basis difference in fixed assets depreciation	(10,725)	(1,385)
	\$	\$
<b>Non Current</b>		
Basis difference in intangibles	\$ 24,819	\$ 19,222
Basis difference in fixed assets impairment	74,403	168,080
Foreign tax credit	7,320	3,494
Net operating loss carryforwards	131,529	104,515
Basis difference in fixed assets	(13,723)	(47,482)
Unrealized foreign exchange gains	(16,245)	
Contingency reserve	(4,648)	
Other	(1,811)	
Valuation allowance	(197,689)	(244,565)
	\$ 3,955	\$ 3,264

As of December 31, 2003, the Company had foreign operating loss carryforwards of approximately \$220.9 million that expire at various times and some of which carryforward without expiration.

At December 31, 2003, the Company had United States operating loss carryforwards of \$146 million available to reduce future United States taxable income which expire periodically through 2022. Certain of these operating loss carryforwards may be subject to limitations in the future, in accordance with Section 382 of the Internal Revenue Code.

No provision was made in 2003 for United States income taxes on the undistributed earnings of the foreign subsidiaries as it is the Company's intention to utilize those earnings in the foreign operations for an indefinite period of time or to repatriate such earnings only when tax effective to do so. It is not practicable to determine the amount of income or withholding tax that would be payable upon the remittance of those earnings.

### 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable, marketable securities and accounts payable approximate fair value due to relatively short period to maturity. The estimated fair value of the Company's 2003 Convertible Senior Notes, 2000 Convertible Subordinated Debentures, 1999, 1998 and 1997 Senior Notes (carrying value of \$475 million and \$440 million, at December 31, 2003 and 2002, respectively), based on quoted market prices, was \$547 million and \$226 million, respectively, at December 31, 2003 and 2002.

**11. COMMITMENTS AND CONTINGENCIES**

Future minimum lease payments under capital lease, vendor financing obligations and non-cancelable operating leases as of December 31, 2003 are as follows (in thousands):

Year Ending December 31,	Vendor Financing and Capital Leases	Purchase Obligations	Operating Leases
2004	\$ 17,439	\$ 2,500	\$ 13,300
2005	15,096	2,500	9,602
2006	13,597		6,851
2007	4,285		5,473
2008	888		3,353
Thereafter			2,252
<b>Total minimum lease payments</b>	<b>51,305</b>	<b>5,000</b>	<b>40,831</b>
Less: Amount representing interest	(6,756)		
	<b>\$ 44,549</b>	<b>\$ 5,000</b>	<b>\$ 40,831</b>

The Company has contractual obligations to utilize network facilities from a long distance carrier 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 \$2.5 million in 2004 and 2005.

Rent expense under operating leases was \$15.2 million, \$15.8 million and \$18.9 million for the years ended December 31, 2003, 2002 and 2001, 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 \$6.2 million (8.0 million CAD), plus penalties and interest of \$9.5 million (12.3 million CAD). The Company is disputing the entire assessment. As of December 31, 2003, the Company paid \$1.3 million (1.7 million CAD) and committed to pay \$0.1 million (100,000 CAD) per month for the next twelve months subject to potential refund if the Company prevails. The Company has recorded an accrual for the amounts that management estimates to be the probable loss. The Company's ultimate legal and financial liability with respect to these proceedings cannot be estimated with certainty at this time, while an adverse result for the full amount sought or some significant percentage thereof could have a material adverse effect on its consolidated financial position, 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 are scheduled for May 2004. 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 vigorously defend 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 matters will not have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

## 12. CONVERTIBLE PREFERRED STOCK

In December 2002, the Company signed an agreement to sell 559,950 newly-authorized shares of its Series C convertible preferred stock (the "Series C Preferred") for an aggregate purchase price of \$42 million. On December 31, 2002, the Company issued 438,853 shares of Series C Preferred for approximately \$32.3 million, net of \$0.6 million of offering costs.

When issued on December 31, 2002, the Series C Preferred accrued dividends at the rate of 8.0% per annum on the outstanding accreted value, subject to elimination upon meeting certain performance criteria. The performance criteria was met in February 2003, eliminating the dividend requirement. The Company accreted dividends of \$0.3 million in 2003. The accreted dividends were effected through a modification of the conversion ratio. When originally issued, each Series C Preferred share was convertible into 40 shares of common stock. Upon meeting the performance criteria, the conversion ratio was modified to convert each Series C Preferred share into 40.3911 shares of common stock. The preferred-to-common stock conversion ratio and the conversion price were subject to certain antidilution adjustments.

At a special meeting of the Company's stockholders on March 31, 2003, its stockholders voted to approve the issuance of the remaining 121,097 shares of Series C Preferred for approximately \$8.9 million in cash, net of \$0.2 million of offering costs. Each Series C Preferred share was convertible into 40.3911 shares of common stock. At the time of issuance, the fair value of the Company's stock was greater than the conversion price. The Company calculated a beneficial conversion feature of \$1.4 million, which was recorded as a deemed dividend at the time of issuance.

Each Series C Preferred share was convertible into common stock at any time. All shares were mandatorily convertible if (i) two-thirds of the holders elected to convert or (ii) the average closing price of the Company's common stock for any period of 20 consecutive trading days exceeded three times the then effective conversion price, and all of the then outstanding shares of Series C Preferred were no longer subject to transfer restrictions as contained in, and may be sold or transferred by such Series C holders in compliance with, Rule 144(k) and Rule 145 under the Securities Act of 1933, as amended. The Series C Preferred shareholders were entitled to vote on all matters submitted to the common stock holders on an as-if-converted basis.

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

In November 2003, the selling security holders converted 559,950 shares of convertible preferred stock, representing 100% of the outstanding Series C Preferred, into 22,616,990 shares of common stock. During a 270-day period commencing November 4, 2003, certain selling security holders' shares will be subject to the terms of a lock-up agreement with the Company, which will generally prohibit the resale of 13,540,008 of such shares.

### 13. STOCKHOLDERS' EQUITY

In November 2003, the Company issued 22,616,990 shares of common stock pursuant to the conversion of the Series C Preferred. See Note 12 "Convertible Preferred Stock."

In March 2002, the Company settled its outstanding equipment lease obligations of approximately \$15 million with CISCO Systems Capital Corporation for \$6.5 million in cash and 1,200,000 shares of the Company's common stock. \$5.0 million was paid in March 2002, and \$1.5 million was paid in April 2003. The Company issued the shares in reliance upon Section 4(2) of the Securities Act of 1933. In June 2002, the 1,200,000 shares of the Company's stock were registered for resale.

In November 2001, the Company exchanged 10,870,668 shares of the Company's common stock for the extinguishment of \$62.9 million in principal amount of the 2000 Convertible Debentures. This resulted in a gain of \$53.3 million, slightly offset by the write-off of related deferred financing costs.

In January 2001, the Company exchanged 8,308,258 shares of the Company's common stock for the extinguishment of \$129.6 million in principal amount of the 2000 Convertible Debentures and purchased \$38.2 million of principal amount of its senior notes and convertible debentures, prior to maturity, for \$11.6 million in cash. These transactions resulted in a gain of \$106.1 million, slightly offset by the write-off of related deferred financing costs.

On January 10, 2001, the Company received from Inktomi Corporation an investment, which was a part of a strategic alliance created between the two companies in June 2000, of \$10 million in exchange for 2,862,254 restricted shares of the Company's common stock.

During the year ended December 31, 2001, the Company issued 265,287 shares of the Company's common stock as consideration of the purchase price for various acquisitions. No shares were issued during the years ended December 31, 2003 and 2002 in connection with business acquisitions.

### 14. STOCK-BASED COMPENSATION

In December 1998, the Company established the 1998 Restricted Stock Plan (the "Restricted Plan") to facilitate the grant of restricted stock to selected individuals who contribute to the development and success of the Company. The total number of shares of common stock that may be granted under the Restricted Plan is 750,000. During the year ended December 31, 2001, the Company issued 17,643 shares of restricted stock under the Restricted Plan at fair value to certain eligible agents. These restricted shares vest ratably on the issue date, first anniversary and second anniversary of the issue date based on a continued relationship. Compensation expense related to the award was approximately \$0.1 million for the year ended December 31, 2001. The Company did not issue any restricted stock under the Restricted Plan for the years ended December 31, 2003 and 2002. During the year ended December 31, 2002 and 2001, the Company cancelled 15,280 shares and 80,500 shares (which were issued prior to 2001) of restricted stock due to the termination of certain employees and agents, respectively. In conjunction with the cancellation during 2001, promissory notes of approximately \$0.6 million, securing payment for the restricted shares, were forgiven. As of December 31, 2003, all remaining shares were no longer considered restricted.

The Company sponsors an Employee Stock Option Plan (the "Employee Plan"). The total number of shares of common stock authorized for issuance under the Employee Plan is 13,000,000. Under the Employee Plan, awards may be granted to key employees of the Company and its subsidiaries in the



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

form of Incentive Stock Options or Nonqualified Stock Options. The Employee Plan allows the granting of options at an exercise price of not less than 100% of the stock's fair value at the date of grant. The options vest over a period of up to three years, and no option will be exercisable more than ten years from the date it is granted. In May 2002, the Company offered employees the opportunity to exchange all outstanding stock options with exercise prices per share greater than \$2.00 for replacement options to purchase shares of the Company's common stock at the closing price of the Company's common stock on the date that was six months and one day after the expiration date of the offer. Under the offer, 3,266,977 shares of the Company's common stock were cancelled, and 3,233,827 shares of the Company's common stock were reissued six months and one day after. The options that were exchanged and reissued vest over a two year period. The difference in the number of the cancelled and reissued shares is due to termination of employees during the six-month period.

The Company sponsors a Director Stock Option Plan (the "Director Plan") for non-employee directors. Under the Director Plan, an option is granted to each qualifying non-employee director to purchase 45,000 shares of common stock, which vests over a two-year period. The option price per share is the fair market value of a share of common stock on the date the option is granted. No option will be exercisable more than five years from the date of grant. An aggregate of 600,000 shares of common stock was reserved for issuance under the Director Plan.

A summary of stock option activity during the three years ended December 31, 2003 is as follows:

		2003		2002		2001	
		Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding	Beginning of year	5,865,442	\$ 2.10	6,489,588	\$ 9.16	5,002,405	\$ 15.90
Granted		2,567,000	\$ 2.15	3,416,994	\$ 1.60	4,171,942	\$ 1.63
Exercised		(686,316)	\$ 1.18	(2,750)	\$ 1.68		\$
Forfeitures		(412,235)	\$ 4.09	(4,038,390)	\$ 13.04	(2,684,759)	\$ 10.02
Outstanding	end of year	7,333,891	\$ 2.10	5,865,442	\$ 2.10	6,489,588	\$ 9.16
Eligible for exercise	end of year	3,205,088	\$ 2.34	1,283,887	\$ 3.75	1,946,078	\$ 16.14

The following table summarizes information about stock options outstanding at December 31, 2003:

Range of Option Prices	Options Outstanding			Options Exercisable		
	Total Outstanding	Weighted Average Remaining Life in Years	Weighted Average Outstanding Price	Total Exercisable	Weighted Average Exercise Price	
\$0.54 to \$ 0.75	164,565	6.69	\$ 0.65	76,387	\$ 0.65	
\$0.90	1,235,383	7.16	\$ 0.90	1,234,883	\$ 0.90	
\$1.33	24,500	8.85	\$ 1.33	5,166	\$ 1.33	
\$1.65	2,929,723	8.97	\$ 1.65	1,462,064	\$ 1.65	
\$1.90 to \$ 2.38	2,651,120	8.76	\$ 1.98	217,988	\$ 2.21	
\$3.30 to \$ 6.30	195,000	5.48	\$ 5.24	75,000	\$ 4.65	
\$12.31 to \$17.44	55,450	5.75	\$ 14.39	55,450	\$ 14.39	
\$27.00 to \$33.38	78,150	3.43	\$ 29.19	78,150	\$ 29.19	
	7,333,891			3,205,088		

**15. EMPLOYEE BENEFIT PLANS**

The Company sponsors a 401(k) employee benefit plan (the "401(k) Plan") that covers substantially all United States based employees. Employees may contribute amounts to the 401(k) Plan not to exceed statutory limitations. The 401(k) Plan provides an employer matching contribution in the Company's common stock or cash of 50% of the first 6% of employee annual salary contributions which are subject to three-year cliff vesting. During the years ended December 31, 2002 and 2001, the matching contributions were given in the form of cash for the open market purchase of the Company's common stock. During the year ended December 31, 2003, the Company issued 135,807 shares of common stock as contributions and made remaining contributions in the form of cash.

The following table summarizes information about the matching contribution the Company made in both the Company's common stock and cash during the years ended December 31, 2003, 2002 and 2001 (in thousands):

	<b>For the Years Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Cash contributed to purchase the Company's common stock	\$	\$ 313	\$ 533
Common stock issued as contribution	258		
Cash contribution	300		
<b>Total</b>	<b>\$ 558</b>	<b>\$ 313</b>	<b>\$ 533</b>
Common stock issued (shares)		136	

Effective January 1, 1998, the Company adopted an Employee Stock Purchase Plan ("ESPP"). The ESPP allows employees to contribute up to 15% of their compensation to purchase the Company's common stock at 85% of the fair market value. An aggregate of 2,000,000 shares of common stock were reserved for issuance under the ESPP. During the years ended December 31, 2003, 2002 and 2001, the Company issued 102,537 shares, 282,382 shares and 528,243 shares under the ESPP, respectively.

**16. RELATED PARTIES**

At December 31, 2002 and 2001, the Company had three notes receivable with balances totaling \$1.0 million from three officers of the Company. These notes arose during the year ended December 31, 2000 and were in connection with a loan from the Company to each of these officers for the exercise of options which were about to expire. The notes bear interest at the rate of 6% per annum and are payable in full five years from the date of agreement. The transactions were conducted at arm's length. These notes receivable were secured by shares of the Company's common stock acquired upon exercise of such options. The portion of the notes related to the issuance of stock was reflected as a reduction of stockholders' deficit. In November 2003, two of the officers fully paid the outstanding loan balances plus accrued interest. The shares of the Company's common stock acquired upon exercise of the third officer's options will continue to be held by the Company as collateral for the note. As December 31, 2003, \$0.3 million remained payable.

In 2003 and 2002, the Company entered into a reciprocal services agreement with a vendor to provide and to receive domestic and international termination of telecommunication services. A Director of the Company is the Chairman and Chief Executive Officer of the vendor providing such services. The contract will continue for a period of one year and will then renew automatically on a month-to-month basis. The Company recorded revenue of approximately \$375,000 and \$65,000 and costs of \$125,000 and \$0 in 2003 and 2002, respectively, for services provided and received under this agreement. The Company had amounts due from the vendor of approximately \$65,000 and \$15,000 at December 31, 2003 and 2002, respectively.

**17. 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, which the Company does not allocate to its other geographic segments for management reporting purposes.

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

	Year Ended December 31,		
	2003	2002	2001
<b>Net Revenue</b>			
<b>North America</b>			
<i>United States</i>	\$ 287,360	\$ 212,399	\$ 271,588
<i>Canada</i>	214,848	163,428	172,647
<i>Other</i>	3,896	5,742	8,876
<b>Total North America</b>	<b>506,104</b>	<b>381,569</b>	<b>453,111</b>
<b>Europe</b>			
<i>United Kingdom</i>	156,941	139,480	141,297
<i>Germany</i>	53,629	63,767	99,189
<i>Netherlands</i>	137,216	79,467	42,824
<i>Other</i>	77,384	80,955	73,737
<b>Total Europe</b>	<b>425,170</b>	<b>363,669</b>	<b>357,047</b>
<b>Asia-Pacific</b>			
<i>Australia</i>	336,720	259,459	248,173
<i>Other</i>	19,785	19,359	24,144
<b>Total Asia-Pacific</b>	<b>356,505</b>	<b>278,818</b>	<b>272,317</b>
<b>Total</b>	<b>\$ 1,287,779</b>	<b>\$ 1,024,056</b>	<b>\$ 1,082,475</b>
<b>Income (Loss) from Operations</b>			
North America	\$ 16,000	\$ (7,326)	\$ (411,135)
Europe	11,363	(18,397)	(202,406)
Asia-Pacific	42,271	22,408	(58,756)
<b>Total</b>	<b>\$ 69,634</b>	<b>\$ (3,315)</b>	<b>\$ (672,297)</b>
<b>Capital Expenditures</b>			
North America	\$ 11,112	\$ 9,193	\$ 40,023
Europe	4,058	5,268	17,496
Asia-Pacific	9,576	14,906	30,252
<b>Total</b>	<b>\$ 24,746</b>	<b>\$ 29,367</b>	<b>\$ 87,771</b>

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

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

	December 31,	
	2003	2002
<b>Assets</b>		
North America		
<i>United States</i>	\$ 190,527	\$ 215,006
<i>Canada</i>	124,789	108,247
<i>Other</i>	7,671	7,125
Total North America	322,987	330,378
Europe		
<i>United Kingdom</i>	80,243	72,178
<i>Germany</i>	20,434	25,410
<i>Netherlands</i>	15,387	29,586
<i>Other</i>	57,138	60,326
Total Europe	173,202	187,500
Asia-Pacific		
<i>Australia</i>	229,765	179,195
<i>Other</i>	25,210	27,515
Total Asia-Pacific	254,975	206,710
Total	\$ 751,164	\$ 724,588

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

	For the Year Ended December 31,		
	2003	2002	2001
Voice	\$ 1,087,487	\$ 854,840	\$ 930,635
Data/Internet	129,864	111,416	112,836
VOIP	70,428	57,800	39,004
Total	\$ 1,287,779	\$ 1,024,056	\$ 1,082,475

**18. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)**

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 2003 and 2002. The decline in the third quarter net income in 2003 is due to temporarily stable foreign currency exchange rates and a corresponding reduction in foreign currency transaction gain.

The income per common share amounts for each of the quarters in the year ended December 31, 2003 have been restated to give effect to the restatement as discussed in Note 25.

	For the Quarter Ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
	(in thousands, except per share amounts)			
Net revenue	\$ 300,443	\$ 320,240	\$ 328,265	\$ 338,831
Income from operations	\$ 11,923	\$ 12,614	\$ 24,021	\$ 21,076
Income before extraordinary item	\$ 11,201	\$ 20,036	\$ 5,835	\$ 16,796
Net income	\$ 11,201	\$ 20,036	\$ 5,835	\$ 17,683
Basic income per common share, as previously reported	\$ 0.13	\$ 0.21	\$ 0.07	\$ 0.20
Diluted income per common share, as previously reported	\$ 0.13	\$ 0.21	\$ 0.06	\$ 0.18
Basic income per common share, as restated	\$ 0.17	\$ 0.29	\$ 0.09	\$ 0.22
Diluted income per common share, as restated	\$ 0.13	\$ 0.22	\$ 0.06	\$ 0.18

	For the Quarter Ended			
	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002
	(in thousands, except per share amounts)			
Net revenue	\$ 244,667	\$ 251,244	\$ 260,533	\$ 267,612
Income (loss) from operations	\$ 948	\$ 3,679	\$ 5,852	\$ (13,794)
Cumulative effect on a change in accounting principle	\$ (10,973)	\$	\$	\$
Net income (loss)	\$ 9,781	\$ (11,574)	\$ (14,369)	\$ (18,441)
Basic and diluted income (loss) per common share:	\$ 0.15	\$ (0.18)	\$ (0.22)	\$ (0.28)

Due to the adoption of SFAS No. 142 during the year ended December 31, 2002, the Company retroactively restated the first quarter and third quarter results.

Quarterly and year-to-date computations of per share amounts are made independently, therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

**19. ASSET IMPAIRMENT**

In 2001, pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company identified certain long-lived assets for which there were indications of impairment. The overall deterioration in economic conditions within the telecommunications industry during 2001 led the Company to believe that the market value of certain long-lived assets had decreased significantly. As a result, the Company evaluated the following asset groupings, which included any corresponding goodwill: voice, data/Internet, and data centers. The Company's voice business provides international long distance services terminating in over 240 countries, and domestic long distance services within selected countries in its principal service regions. The Company's data/Internet business provides Internet access and data transfer services over ATM and frame relay networks to customers located in North America, Europe and Australia. The Company's data centers offer Web design, Web hosting, co-location and e-commerce services in its

primary operating regions, including the United States, Canada, the United Kingdom, France and Australia.

Based on the Company's evaluation, it was determined that the estimated future cash flows were less than the carrying value of its voice and data center long-lived assets. Accordingly, during the fourth quarter of 2001, the Company adjusted the carrying value of its long-lived assets, including property and equipment and intangible assets, to their estimated fair value of \$485.0 million. This adjustment resulted in an asset impairment write-down of \$526.3 million, or \$9.85 per share, consisting of the following specific asset write-downs: \$357.3 million in goodwill, \$149.9 million in property and equipment, and \$19.1 million in customer lists. The estimated fair value of the Company's assets was based on the present value of estimated future cash flows using a discount rate commensurate with the risks involved.

During the year ended December 31, 2002, the Company recognized \$22.3 million, or \$0.35 per share, of additional specific write-offs which included \$17.4 million of fiber cable in Europe which will no longer be used by the Company, \$0.5 million in customer list impairment, and the goodwill of its German Internet subsidiary, iPrimus Telecommunications GmbH of \$3.8 million due to the Company's annual impairment test performed on October 1, 2002.

During the year ended December 31, 2003, the Company recognized a \$2.7 million impairment charge, or \$0.03 per share, which included \$1.0 million of networking equipment in the United Kingdom, \$0.8 million of network equipment in the United States, \$0.2 million of networking equipment in Germany, and a write-off of assets of \$0.5 million related to the fax-over-IP business in India.

The following table outlines the Company's asset impairment write-down by segment (in thousands):

	For the Year Ended December 31,		
	2003	2002	2001
<b>North America</b>			
<i>United States</i>	\$ 839	\$ 150	\$ 230,661
<i>Canada</i>			84,717
<i>Other</i>			
<b>Total North America</b>	<b>839</b>	<b>150</b>	<b>315,378</b>
<b>Europe</b>			
<i>United Kingdom</i>	971	17,762	103,683
<i>Germany</i>	189	4,198	13,549
<i>Other</i>		34	40,427
<b>Total Europe</b>	<b>1,160</b>	<b>21,994</b>	<b>157,659</b>
<b>Asia-Pacific</b>			
<i>Australia</i>	131		43,437
<i>Other</i>	538	193	9,835
<b>Total Asia-Pacific</b>	<b>669</b>	<b>193</b>	<b>53,272</b>
<b>Total</b>	<b>\$ 2,668</b>	<b>\$ 22,337</b>	<b>\$ 526,309</b>

## 20. EQUITY INVESTMENT WRITE-OFF AND LOSS

On July 1, 2002, InterNeXt, the Company's data/Internet subsidiary in France, filed for insolvency administration. As a result of this filing, the Company no longer maintains the ability to control the operations of InterNeXt. Accordingly, the Company began accounting for the investment in InterNeXt, effective July 1, 2002, using the equity method of accounting in accordance with APB No. 18, "The Equity Method of Accounting for Investments in Common Stock." The Company believes the equity



method was appropriate given its ability to exercise significant influence over the operating and financial policies of InterNeXt. During the three months ended September 30, 2002, the Company did not believe that it would be able to recover the carrying amount of its equity investment in InterNeXt based on the latest insolvency administration proceedings. In accordance with APB No. 18, the Company believed the loss in value of the equity investment to be other than temporary and correspondingly wrote-off the investment of \$0.3 million.

On October 1, 2002, the Company transferred shares of its German mobile accessories business, Cards & Parts, to the minority stockholders of that business, which reduced the Company's ownership interest to 49%. As a result, the Company no longer maintained the ability to control the operations of Cards & Parts. Accordingly, the Company began accounting for the investment in Cards & Parts, effective October 1, 2002, using the equity method of accounting in accordance with APB No. 18, "The Equity Method of Accounting for Investments in Common Stock." The Company believes the equity method was appropriate given its ability to exercise significant influence over the operating and financial policies of Cards & Parts. On October 4, 2002, Cards & Parts filed for insolvency administration. During the three months ended December 31, 2002, the Company did not believe that it would be able to recover the carrying amount of its equity investment in Cards & Parts based on the latest insolvency administration proceedings. In accordance with APB No. 18, the Company believed the loss in value of the equity investment to be other than temporary and correspondingly wrote-off the investment of \$2.8 million.

As of October 1, 2002, the Company amended its contractual agreements to give up its right to control the Board of Directors and the operations of Bekko, its data/Internet investment in Japan. As a result, the Company deconsolidated Bekko in October 2002 and recorded an equity investment. The Company recorded a loss of \$2.7 million after the investment was deemed to be permanently impaired, and \$0.1 million in value of its equity investment in Bekko for the years ended December 31, 2003 and 2002, respectively.

## **21. GAIN ON EARLY EXTINGUISHMENT OF DEBT**

In October 2003, the Company redeemed the remaining \$33.6 million principal amount of the 1997 Senior Notes at par plus accrued interest to the date of redemption. This transaction resulted in a loss of \$0.3 million for the write-off of deferred financing costs and warrant amortization.

In September 2003, the Company redeemed \$10.0 million principal amount of the 1997 Senior Notes at par plus accrued interest to the date of redemption. This transaction resulted in a \$0.1 million, or \$(0.00) per basic and diluted share, write-off of deferred financing costs and warrant amortization. In addition, the Company recognized a loss of \$1.1 million for fees related to the Company's purchase of senior notes.

In September 2003, the Company fully paid an outstanding vendor debt obligation of \$56.0 million prior to maturity. This transaction resulted in a write-off of deferred financing costs of \$0.2 million.

In April 2003, the Company made open market purchases of \$10.2 million principal amount of high yield debt securities for which it paid \$6.3 million in cash. In particular, the following high yield debt securities were purchased: \$6.5 million principal amount of the January 1999 Senior Notes and \$3.6 million principal amount of the 1998 Senior Notes. These transactions resulted in a gain on early extinguishment of debt of \$3.6 million, slightly offset by the write-off of related deferred financing costs.

In April 2003, the Company settled an outstanding vendor debt obligation of \$14.9 million in Europe for approximately \$10.6 million in cash and recognized a gain of \$4.3 million.

In January 2003, the Company made open market purchases of \$43.7 million in principal amount of the 1997 Senior Notes, prior to maturity, for \$36.2 million in cash. These transactions resulted in a gain on early extinguishment of debt of \$6.7 million, slightly offset by the write-off of related deferred financing costs.



In November 2002, the Company made open market purchases of \$20.5 million principal amount of high yield debt securities for which it paid \$10.7 million in cash. In particular, the following high yield debt securities were purchased: \$1.7 million principal amount of the January 1999 Senior Notes and \$18.8 million principal amount of the 1998 Senior Notes. These transactions resulted in a gain of \$9.4 million, slightly offset by the write-off of related deferred financing costs.

In January 2002, the Company made open market purchases of \$32.5 million principal amount of high yield debt securities for which it paid \$4.4 million in cash. In particular, the following high yield debt securities were purchased: \$21.5 million principal amount of the January 1999 Senior Notes and \$11.0 million principal amount of the October 1999 Senior Notes. These transactions resulted in a gain of \$27.3 million, slightly offset by the write-off of related deferred financing costs.

In November 2001, the Company exchanged 10,870,668 shares of the Company's common stock for the extinguishment of \$62.9 million in principal amount of the 2000 Convertible Debentures. This resulted in a gain of \$53.3 million, slightly offset by the write-off of related deferred financing costs.

In October 2001, the Company fully extinguished its vendor debt and related obligations to Hewlett-Packard by over \$50 million with a cash payment of \$5 million. The long-term debt eliminated by the Company was due in March 2005 and bore an interest rate of 9.25% per annum. This transaction resulted in a gain of \$45.9 million.

In July 2001, the Company purchased \$141.3 million of principal amount of its senior notes, prior to maturity, for \$36.0 million in cash. This resulted in a gain of \$100.7 million, slightly offset by the write-off of related deferred financing costs.

During the three month period ended June 30, 2001, the Company purchased \$244.8 million of principal amount of its senior notes, prior to maturity, for \$52.2 million in cash. This resulted in a gain of \$185.7 million, slightly offset by the write-off of related deferred financing costs.

In January 2001, the Company exchanged 8,308,258 shares of the Company's common stock for the extinguishment of \$129.6 million in principal amount of the 2000 Convertible Debentures and purchased \$38.2 million of principal amount of its senior notes and convertible debentures, prior to maturity, for \$11.6 million in cash. These transactions resulted in a gain of \$106.1 million, slightly offset by the write-off of related deferred financing costs.

## **22. EXTRAORDINARY ITEM**

In connection with the purchase of certain businesses, the fair value of the net assets acquired exceeded the purchase price (excess of cost). In accordance with SFAS No. 141, the excess of cost was allocated as a reduction to the acquired assets except for monetary assets, such as cash and deferred tax assets. The remaining excess of cost after this allocation was recognized as an extraordinary gain of approximately \$0.9 million.

## **23. GUARANTOR/NON-GUARANTOR CONSOLIDATING CONDENSED FINANCIAL INFORMATION**

The Company's 2004 Senior Notes (See Note 24 "Subsequent Events") are fully and unconditionally guaranteed by Primus Telecommunications Group, Incorporated ("PTGI") on a senior and secured basis. Accordingly, the following consolidating condensed financial information as of December 31, 2003 and December 31, 2002, and for the years ended December 31, 2003, 2002 and 2001 are included for (a) PTGI on a stand-alone basis; (b) Primus Telecommunications Holding Incorporated ("PTHI"), a direct wholly owned subsidiary of PTGI; 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 STATEMENT OF OPERATIONS**  
(in thousands)

For the Year Ended December 31, 2003

	PTGI	PTHI	Eliminations	Consolidated
NET REVENUE	\$	\$ 1,287,779	\$	\$ 1,287,779
OPERATING EXPENSES				
Cost of revenue exclusive of depreciation included below)		786,308		786,308
Selling, general and administrative	5,100	337,250		342,350
Depreciation and amortization		86,015		86,015
Loss on sale of assets		804		804
Asset impairment write-down		2,668		2,668
Total operating expenses	5,100	1,213,045		1,218,145
INCOME (LOSS) FROM OPERATIONS	(5,100)	74,734		69,634
INTEREST EXPENSE	(43,738)	(16,995)		(60,733)
EQUITY INVESTMENT WRITE-OFF AND LOSS		(2,678)		(2,678)
GAIN ON EARLY EXTINGUISHMENT OF DEBT	8,810	4,135		12,945
INTEREST INCOME AND OTHER INCOME (EXPENSE)	63	1,012		1,075
FOREIGN CURRENCY TRANSACTION GAIN	9,410	29,984		39,394
INTERCOMPANY INTEREST	5,455	(5,455)		
EQUITY IN NET INCOME OF SUBSIDIARIES	80,290		(80,290)	
INCOME BEFORE INCOME TAXES	55,190	84,737	(80,290)	59,637
INCOME TAX EXPENSE	(435)	(5,334)		(5,769)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	54,755	79,403	(80,290)	53,868
EXTRAORDINARY ITEM		887		887
NET INCOME	54,755	80,290	(80,290)	54,755
ACCRETED AND DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK	(1,678)			(1,678)
INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 53,077	\$ 80,290	\$ (80,290)	\$ 53,077

F-39

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

For the Year Ended December 31, 2002

	PTGI	PTHI	Eliminations	Consolidated
NET REVENUE	\$	\$ 1,024,056	\$	\$ 1,024,056
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)		668,643		668,643
Selling, general and administrative	2,080	252,072		254,152
Depreciation and amortization		82,239		82,239
Asset impairment write-down		22,337		22,337
<b>Total operating expenses</b>	<b>2,080</b>	<b>1,025,291</b>		<b>1,027,371</b>
LOSS FROM OPERATIONS	(2,080)	(1,235)		(3,315)
INTEREST EXPENSE	(51,263)	(17,040)		(68,303)
EQUITY INVESTMENT WRITE-OFF AND LOSS		(3,225)		(3,225)
GAIN ON EARLY EXTINGUISHMENT OF DEBT	36,675			36,675
INTEREST INCOME AND OTHER INCOME	31	2,423		2,454
FOREIGN CURRENCY TRANSACTION GAIN	5,501	2,985		8,486
INTERCOMPANY INTEREST	(43,162)	43,162		
EQUITY IN NET INCOME OF SUBSIDIARIES	15,331		(15,331)	
INCOME (LOSS) BEFORE INCOME TAXES	(38,967)	27,070	(15,331)	(27,228)
INCOME TAX BENEFIT (EXPENSE)	4,364	(766)		3,598
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(34,603)	26,304	(15,331)	(23,630)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE		(10,973)		(10,973)
NET INCOME (LOSS)	\$ (34,603)	\$ 15,331	\$ (15,331)	\$ (34,603)

F-40

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

For the Year Ended December 31, 2001

	<b>PTGI</b>	<b>PTHI</b>	<b>Eliminations</b>	<b>Consolidated</b>
NET REVENUE	\$	\$ 1,082,475	\$	\$ 1,082,475
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)		767,841		767,841
Selling, general and administrative	1,528	301,498		303,026
Depreciation and amortization		157,596		157,596
Asset impairment write-down		526,309		526,309
<b>Total operating expenses</b>	<b>1,528</b>	<b>1,753,244</b>		<b>1,754,772</b>
INCOME (LOSS) FROM OPERATIONS	(1,528)	(670,769)		(672,297)
INTEREST EXPENSE	(83,330)	(17,370)		(100,700)
GAIN ON EARLY EXTINGUISHMENT OF DEBT	491,771			491,771
INTEREST INCOME AND OTHER INCOME (EXPENSE)		(17,951)		(17,951)
FOREIGN CURRENCY TRANSACTION LOSS		(1,999)		(1,999)
INTERCOMPANY INTEREST	(34,117)	34,117		
EQUITY IN NET LOSS OF SUBSIDIARIES	(673,972)		673,972	
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(301,176)</b>	<b>(673,972)</b>	<b>673,972</b>	<b>(301,176)</b>
INCOME TAX EXPENSE	(5,000)			(5,000)
<b>NET LOSS</b>	<b>\$ (306,176)</b>	<b>\$ (673,972)</b>	<b>\$ 673,972</b>	<b>\$ (306,176)</b>

F-41

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

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 BALANCE SHEET**  
(in thousands)

December 31, 2002

	PTGI	PTHI	Eliminations	Consolidated
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 590	\$ 91,902	\$	\$ 92,492
Accounts receivable		160,421		160,421
Prepaid expenses and other current assets	1,567	31,538		33,105
Total current assets	2,157	283,861		286,018
INTERCOMPANY RECEIVABLES	991,067		(991,067)	
INVESTMENTS IN SUBSIDIARIES	(551,437)		551,437	
RESTRICTED CASH		11,712		11,712
PROPERTY AND EQUIPMENT Net		330,102		330,102
GOODWILL Net		48,963		48,963
OTHER INTANGIBLE ASSETS Net		29,696		29,696
OTHER ASSETS	7,737	10,360		18,097
TOTAL ASSETS	\$ 449,524	\$ 714,694	\$ (439,630)	\$ 724,588
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable	\$ 872	\$ 98,781	\$	\$ 99,653
Accrued interconnection costs		98,224		98,224
Accrued expenses and other current liabilities	420	59,114		59,534
Accrued income taxes	687	11,433		12,120
Accrued interest	15,546	2,481		18,027
Current portion of long-term obligations		63,231		63,231
Total current liabilities	17,525	333,264		350,789
INTERCOMPANY PAYABLES		991,067	(991,067)	
LONG-TERM OBLIGATIONS	531,029	6,728		537,757
OTHER LIABILITIES		3,868		3,868
Total liabilities	548,554	1,334,927	(991,067)	892,414
<b>COMMITMENTS AND CONTINGENCIES</b>				
SERIES C CONVERTIBLE PREFERRED STOCK	32,297			32,297
<b>STOCKHOLDERS' DEFICIT:</b>				
Common stock	649			649
Additional paid-in capital	607,856	305,852	(305,852)	607,856
Accumulated deficit	(739,832)	(857,289)	857,289	(739,832)
Accumulated other comprehensive loss		(68,796)		(68,796)
Total stockholders' deficit	(131,327)	(620,233)	551,437	(200,123)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 449,524	\$ 714,694	\$ (439,630)	\$ 724,588

December 31, 2002

---

---

F-43

---



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

For the Year Ended December 31, 2003

	PTGI	PTHI	Eliminations	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	\$ 54,755	\$ 80,290	\$ (80,290)	\$ 54,755
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for doubtful accounts receivable		22,117		22,117
Non-cash compensation expense		472		472
Stock issuance 401(k) Plan and Restricted Stock Plan		258		258
Depreciation, amortization and accretion	52	86,015		86,067
Asset impairment write-down		2,668		2,668
Loss on sale of assets		804		804
Equity in net income of subsidiaries	(80,290)		80,290	
Equity investment loss		2,678		2,678
Gain on early extinguishment of debt	(8,810)	(4,135)		(12,945)
Minority interest share of loss		(348)		(348)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(33,122)	(8,622)		(41,744)
Changes in assets and liabilities, net of acquisitions:				
Increase in accounts receivable		(26,708)		(26,708)
Decrease in prepaid expenses and other current assets	156	4,199		4,355
Decrease in restricted cash		1,292		1,292
Decrease in other assets	1,695	1,958		3,653
(Increase) decrease in intercompany balance	108,705	(108,705)		
Increase (decrease) in accounts payable	375	(9,271)		(8,896)
Increase (decrease) in accrued expenses, accrued income taxes, other current liabilities and other liabilities	1,322	(19,935)		(18,613)
Increase (decrease) in accrued interest	(3,183)	264		(2,919)
Net cash provided by operating activities	41,655	25,291		66,946
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of property and equipment		(24,746)		(24,746)
Cash used for business acquisitions, net of cash acquired		(2,175)		(2,175)
Net cash used in investing activities		(26,921)		(26,921)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from issuance of long-term obligations, net	126,800	9,125		135,925
Purchase of the Company's debt securities	(87,193)			(87,193)
Principal payments on capital leases, vendor financing and other long-term obligations	(90,578)	(38,775)		(129,353)
Proceeds from minority interest		39		39
Proceeds from sale of convertible preferred stock, net	8,895			8,895
Proceeds from sale of common stock	1,617			1,617
Net cash used in financing activities	(40,459)	(29,611)		(70,070)

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

For the Year Ended December 31, 2003

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		1,619		1,619
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,196	(29,622)		(28,426)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	590	91,902		92,492
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,786	\$ 62,280	\$	\$ 64,066

F-44

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

For the Year Ended December 31, 2002

	<u>PTGI</u>	<u>PTHI</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income (loss)	\$ (34,603)	\$ 15,331	\$ (15,331)	\$ (34,603)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Provision for doubtful accounts receivable		28,089		28,089
Non-cash compensation expense				
Stock issuance 401(k) Plan and Restricted Stock Plan		(7)		(7)
Depreciation, amortization and accretion	141	82,239		82,380
Asset impairment write-down		22,337		22,337
Equity in net income of subsidiaries	(15,331)		15,331	
Equity investment loss		3,225		3,225
Gain on early extinguishment of debt	(36,675)			(36,675)
Minority interest share of loss		(446)		(446)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(4,512)	(1,669)		(6,181)
Deferred income taxes		(3,247)		(3,247)
Cumulative effect of change in accounting principle		10,973		10,973
Changes in assets and liabilities, net of acquisitions:				
Decrease in accounts receivable		13,504		13,504
(Increase) decrease in prepaid expenses and other current assets	(1,366)	657		(709)
Increase in restricted cash		(6,215)		(6,215)
(Increase) decrease in other assets	2,071	(1,729)		342
(Increase) decrease in intercompany balance	472,811	(472,811)		
Increase (decrease) in accounts payable	806	(21,991)		(21,185)
Decrease in accrued expenses, accrued income taxes, other current liabilities and other liabilities	(4,311)	(12,373)		(16,684)
Increase (decrease) in accrued interest	(1,735)	938		(797)
Sale of trading marketable securities		532		532
Net cash provided by operating activities	<u>377,296</u>	<u>(342,663)</u>		<u>34,633</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of property and equipment		(29,367)		(29,367)
Deconsolidation of subsidiaries		(1,358)		(1,358)
Cash used for business acquisitions, net of cash acquired		(882)		(882)
Net cash used in investing activities		<u>(31,607)</u>		<u>(31,607)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from issuance of long-term obligations, net		9,509		9,509
Purchase of the Company's debt securities	(15,043)			(15,043)
Principal payments on capital leases, vendor financing and other long-term obligations	(393,786)	367,864		(25,922)
Proceeds from sale of convertible preferred stock, net	32,297			32,297
Proceeds from sale of common stock	143			143
Net cash used in financing activities	<u>(376,389)</u>	<u>377,373</u>		<u>984</u>

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

For the Year Ended December 31, 2002

EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		4,529		4,529
NET CHANGE IN CASH AND CASH EQUIVALENTS	907	7,632		8,539
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	(317)	84,270		83,953
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 590	\$ 91,902	\$	\$ 92,492

F-45

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

For the Year Ended December 31, 2001

	<u>PTGI</u>	<u>PTHI</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net loss	\$ (306,176)	\$ (673,972)	\$ 673,972	\$ (306,176)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Provision for doubtful accounts receivable		40,235		40,235
Stock issuance 401(k) Plan and Restricted Stock Plan		132		132
Depreciation, amortization and accretion	200	157,596		157,796
Asset impairment write-down		526,309		526,309
Equity in net income of subsidiaries	673,972		(673,972)	
Gain on early extinguishment of debt	(491,771)			(491,771)
Minority interest share of loss		(132)		(132)
Marketable securities write-off		15,000		15,000
Unrealized loss on trading marketable securities		275		275
Cost investment write-down		5,142		5,142
Changes in assets and liabilities, net of acquisitions:				
Increase in accounts receivable		(9,875)		(9,875)
Decrease in prepaid expenses and other current assets	9,839	1,472		11,311
Increase in restricted cash		(295)		(295)
(Increase) decrease in other assets	3,247	(1,629)		1,618
(Increase) decrease in intercompany balance	(22,501)	22,501		
Decrease in accounts payable	(1,618)	(27,004)		(28,622)
Increase (decrease) in accrued expenses, other current liabilities and other liabilities	5,170	(22,700)		(17,530)
Increase (decrease) in accrued interest	(16,452)	3,556		(12,896)
Purchase of trading marketable securities		(872)		(872)
Net cash provided by operating activities	(146,090)	35,739		(110,351)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of property and equipment		(87,771)		(87,771)
Cash used for business acquisitions, net of cash acquired	(185,470)	183,886		(1,584)
Net cash used in investing activities	(185,470)	96,115		(89,355)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from issuance of long-term obligations, net		15,802		15,802
Purchase of the Company's debt securities	(99,845)			(99,845)
Principal payments on capital leases, vendor financing and other long-term obligations	420,234	(453,978)		(33,744)
Proceeds from sale of common stock	10,578			10,578
Net cash used in financing activities	330,967	(438,176)		(107,209)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
		(2,944)		(2,944)

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

For the Year Ended December 31, 2001

---

NET CHANGE IN CASH AND CASH EQUIVALENTS	(593)	(309,266)	(309,859)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	276	393,536	393,812
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ (317)	\$ 84,270	\$ 83,953

---

F-46

#### **24. SUBSEQUENT EVENTS (UNAUDITED)**

In January 2004, Primus Telecommunications Holding, Inc., 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 2004 Senior Notes are due on January 15, 2014, with semi-annual interest payments due on January 15 and July 15. Net proceeds of \$233 million were available to satisfy and discharge all of the Company's outstanding 1998 Senior Notes and January 1999 Senior Notes and are intended to be used to repay or repurchase other long-term obligations or for capital expenditures, working capital and general corporate purposes.

In February 2004, the Company satisfied and discharged the entire remaining principal balances of \$46.6 million of its 1998 Senior Notes and of \$109.9 million of its January 1999 Senior Notes. The entire outstanding principal amount of those senior notes was called on February 14, 2004 by the trustee under the indentures for those senior notes. The 1998 Senior Notes were redeemed at 104.938% of par together with \$24.41 (per \$1,000 principal amount thereof) in accrued interest to the date of redemption, and the January 1999 Senior Notes were redeemed at 105.625% of par together with \$9.06 (per \$1,000 principal amount thereof) in accrued interest to the date of redemption. These transactions resulted in a loss on early extinguishment of debt of \$10.4 million.

In February 2004, the Company acquired Australian-based AOL/7 Pty Ltd (AOL/7). AOL/7 is 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. This acquisition provides Primus with the customer base, content, content development and online advertising businesses of AOL/7, as well as a license for the AOL brand in Australia, for a total consideration of \$18.1 million in cash.

In February and March 2004, the Company retired \$22.9 million of its October 1999 Senior Notes for \$25.6 million in cash. This transaction resulted in a loss on early extinguishment of debt of \$3.1 million.

In February 2004, the Company fully paid its obligations under the Manulife agreement in the amount of 13.0 million CAD (\$10.0 million at December 31, 2003) which resulted in a loss in 2004 of approximately \$0.5 million (0.7 million CAD) due to a write-off of deferred financing costs.

#### **25. 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 basic weighted average common shares outstanding during the period.

Prior to the conversion of the Series C Preferred into common shares in November 2003, the Company included the number of common shares issuable upon conversion of the Series C Preferred in the basic weighted average common shares outstanding as the Series C Preferred was deemed to participate in the earnings of the Company with common shares. Subsequent to the issuance of the Company's Form 10-K for the year ended December 31, 2003, the Company determined that the Series C Preferred does not meet the definition of a participating security. As a result, the basic income per common share for the year ended December 31, 2003 has been restated to exclude the potentially dilutive common shares issuable upon the conversion of its 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.

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

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

	For the Year Ended December 31, 2003	
	Previously Reported	As Restated
Income per common share:		
Basic	\$ 0.59	\$ 0.77
Diluted	\$ 0.56	\$ 0.57
Basic weighted average common shares outstanding	90,135	68,936

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 conversion of its Series C Preferred, September 2003 Convertible Senior Notes, 2000 Convertible Subordinated Debentures and the warrants to purchase shares associated with the 1997 Senior Notes computed using the "if-converted" method.

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

	For the Year Ended December 31,		
	2003	2002	2001
Net income (loss)	\$ 54,755	\$ (34,603)	\$ (306,176)
Accreted and deemed dividend on convertible preferred stock	(1,678)		
Income attributable to common stockholders	\$ 53,077	\$ (34,603)	\$ (306,176)
Weighted average common shares outstanding basic	68,936	64,631	53,423
Series C Preferred	21,199		
2003 Convertible Senior Notes	4,189		
In-the money options exercisable under stock option compensation plans	3,674		
Weighted average common shares outstanding diluted	97,998	64,631	53,423
Income per common share:			
Basic	\$ 0.77	\$ (0.54)	\$ (5.73)
Diluted	\$ 0.57	\$ (0.54)	\$ (5.73)



**SCHEDULE II**  
**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**  
**VALUATION AND QUALIFYING ACCOUNTS**

Activity in the Company's allowance accounts for the years ended December 31, 2003, 2002 and 2001 was as follows (in thousands):

**Doubtful Accounts Receivable**

Period	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Other	Balance at End of Period
2001	\$ 34,464	\$ 40,235	\$ (52,310)	\$	\$ 22,389
2002	\$ 22,389	\$ 28,089	\$ (27,072)	\$	\$ 23,406
2003	\$ 23,406	\$ 22,117	\$ (24,598)	\$ 50	\$ 20,975

**Deferred Tax Asset Valuation**

Period	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Other	Balance at End of Period
2001	\$ 182,463	\$ 43,174	\$	\$	\$ 225,637
2002	\$ 225,637	\$ 20,313	\$	\$	\$ 245,950
2003	\$ 245,950	\$	\$ (37,536)	\$	\$ 208,414

S-1