

PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
November 09, 2007
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

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

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	54-1708481 (I.R.S. Employer Identification No.)
7901 Jones Branch Drive, Suite 900, McLean, VA (Address of principal executive offices)	22102 (Zip Code)
	(703) 902-2800

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

Class	Outstanding as of
Common Stock \$0.01 par value	October 31, 2007 142,632,540

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

INDEX TO FORM 10-Q

	Page No.
Part I. FINANCIAL INFORMATION	
Item 1. FINANCIAL STATEMENTS (UNAUDITED)	
<u>Consolidated Condensed Statements of Operations</u>	1
<u>Consolidated Condensed Balance Sheets</u>	2
<u>Consolidated Condensed Statements of Cash Flows</u>	3
<u>Consolidated Condensed Statements of Comprehensive Loss</u>	4
<u>Notes to Consolidated Condensed Financial Statements</u>	5
Item 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	43
Item 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	60
Item 4. <u>CONTROLS AND PROCEDURES</u>	61
Part II. OTHER INFORMATION	
Item 1. <u>LEGAL PROCEEDINGS</u>	63
Item 1A. <u>RISK FACTORS</u>	63
Item 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	72
Item 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	72
Item 4. <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	72
Item 5. <u>OTHER INFORMATION</u>	72
Item 6. <u>EXHIBITS</u>	72
<u>SIGNATURES</u>	73
<u>EXHIBIT INDEX</u>	74

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
NET REVENUE	\$ 225,283	\$ 245,319	\$ 679,660	\$ 763,024
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	136,464	157,676	423,338	503,356
Selling, general and administrative	72,771	71,639	209,983	219,030
Depreciation and amortization	7,328	6,976	21,228	41,044
(Gain) loss on sale or disposal of assets		(205)	684	14,302
Asset impairment write-down				209,248
Total operating expenses	216,563	236,086	655,233	986,980
INCOME (LOSS) FROM OPERATIONS	8,720	9,233	24,427	(223,956)
INTEREST EXPENSE	(15,810)	(13,188)	(45,668)	(40,658)
ACCRETION ON DEBT DISCOUNT, NET	(37)	222	(411)	(1,344)
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT				5,373
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	364		(7,910)	7,409
INTEREST AND OTHER INCOME	1,141	845	3,695	3,405
FOREIGN CURRENCY TRANSACTION GAIN	12,232	3,895	30,287	8,520
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	6,610	1,007	4,420	(241,251)
INCOME TAX BENEFIT (EXPENSE)	(2,161)	(1,219)	3,525	(3,697)
INCOME (LOSS) FROM CONTINUING OPERATIONS	4,449	(212)	7,945	(244,948)
INCOME FROM DISCONTINUED OPERATIONS, net of tax	140	333	145	2,002
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax	174		6,132	7,415
NET INCOME (LOSS)	\$ 4,763	\$ 121	\$ 14,222	\$ (235,531)
BASIC INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations	\$ 0.03	\$ (0.00)	\$ 0.06	\$ (2.19)
Income from discontinued operations	0.00	0.00	0.00	0.01
Gain from sale of discontinued operations	0.00		0.05	0.07
Net income (loss)	\$ 0.03	\$ 0.00	\$ 0.11	\$ (2.11)
DILUTED INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations	\$ 0.02	\$ (0.00)	\$ 0.05	\$ (2.19)
Income from discontinued operations	0.00	0.00	0.00	0.01
Gain from sale of discontinued operations	0.00		0.03	0.07

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

Net income (loss)	\$ 0.02	\$ 0.00	\$ 0.08	\$ (2.11)
-------------------	---------	---------	---------	-----------

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:

BASIC	142,143	113,844	124,100	111,866
DILUTED	208,042	160,779	192,412	111,866

See notes to consolidated condensed financial statements.

Table of Contents**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts)

(unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 108,724	\$ 64,317
Accounts receivable (net of allowance for doubtful accounts receivable of \$12,473 and \$17,296)	120,108	118,012
Prepaid expenses and other current assets	23,484	24,278
Total current assets	252,316	206,607
RESTRICTED CASH	9,689	8,415
PROPERTY AND EQUIPMENT Net	137,677	111,682
GOODWILL	39,552	34,893
OTHER INTANGIBLE ASSETS Net	1,801	2,762
OTHER ASSETS	30,496	27,891
TOTAL ASSETS	\$ 471,531	\$ 392,250
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 79,097	\$ 70,586
Accrued interconnection costs	42,922	48,942
Deferred revenue	16,990	18,315
Accrued expenses and other current liabilities	54,678	46,984
Accrued income taxes	22,799	17,921
Accrued interest	11,583	13,627
Current portion of long-term obligations	13,637	36,997
Total current liabilities	241,706	253,372
LONG-TERM OBLIGATIONS (net of premium (discount) of \$2,490 and (\$5,354))	676,236	607,077
OTHER LIABILITIES	51	56
Total liabilities	917,993	860,505
COMMITMENTS AND CONTINGENCIES (See Note 5.)		
STOCKHOLDERS DEFICIT:		
Preferred stock: not designated, \$0.01 par value 1,410,050 shares authorized; none issued and outstanding; Series A and B, \$0.01 par value 485,000 shares authorized; none issued and outstanding; Series C, \$0.01 par value 559,950 shares authorized; none issued and outstanding		
Common stock, \$0.01 par value 300,000,000 shares authorized; 142,632,540 and 113,848,540 shares issued and outstanding	1,426	1,138
Additional paid-in capital	718,634	692,941
Accumulated deficit	(1,074,622)	(1,082,853)
Accumulated other comprehensive loss	(91,900)	(79,481)
Total stockholders deficit	(446,462)	(468,255)

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

TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 471,531	\$ 392,250
--	------------	------------

See notes to consolidated condensed financial statements.

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

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 14,222	\$ (235,531)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for doubtful accounts receivable	7,358	11,156
Stock compensation expense	184	481
Depreciation and amortization	21,288	41,746
(Gain) loss on sale or disposal of assets	(5,447)	6,911
Asset impairment write-down		209,248
Accretion of debt discount	411	1,344
Change in fair value of derivatives embedded within convertible debt		(5,373)
Deferred income taxes	(860)	
(Gain) loss on early extinguishment or restructuring of debt	7,910	(7,409)
Other		(1,595)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(32,629)	(9,676)
Changes in assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	293	15,638
Decrease in prepaid expenses and other current assets	2,598	7,238
Decrease in other assets	1,313	91
Increase (decrease) in accounts payable	2,829	(12,536)
Decrease in accrued interconnection costs	(8,245)	(15,850)
Increase (decrease) in accrued expenses, accrued income taxes, deferred revenue, other current liabilities and other liabilities, net	(1,017)	7,335
Decrease in accrued interest	(2,043)	(4,243)
Net cash provided by operating activities	8,165	8,975
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(29,717)	(23,926)
Cash from disposition of business, net of cash disposed	6,140	12,947
Cash used in business acquisitions, net of cash acquired	(200)	(224)
Increase (decrease) in restricted cash	(340)	1,196
Net cash used in investing activities	(24,117)	(10,007)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	109,275	35,291
Deferred financing costs	(6,570)	(2,850)
Principal payments on long-term obligations	(64,867)	(9,117)
Proceeds from sale of common stock, net of issuance costs	19,170	4,935
Net cash provided by financing activities	57,008	28,259
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	3,351	602
NET CHANGE IN CASH AND CASH EQUIVALENTS	44,407	27,829
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	64,317	42,999
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 108,724	\$ 70,828

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

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for interest	\$ 46,000	\$ 43,197
Cash paid for taxes	\$ 1,056	\$ 2,946
Non-cash investing and financing activities:		
Capital lease additions	\$ 2,175	\$ 66
Leased fiber capacity additions	\$ 1,786	\$
Settlement of outstanding debt with issuance of common stock	\$ 6,627	\$ 1,351
Settlement of outstanding debt with issuance of new convertible debt	\$	\$ (27,417)
Issuance of new convertible debt in exchange for convertible subordinated debentures	\$	\$ 27,481
Settlement of outstanding debt with issuance of new exchangeable debt	\$	\$ (54,750)
Issuance of new exchangeable debt in exchange for convertible senior debentures	\$	\$ 47,102
Business disposition proceeds in note receivable	\$ 845	\$

See notes to consolidated condensed financial statements.

Table of Contents**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
NET INCOME (LOSS)	\$ 4,763	\$ 121	\$ 14,222	\$ (235,531)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Foreign currency translation adjustment	(4,008)	(2,594)	(12,419)	(883)
Reclassification of foreign currency translation adjustment for loss from the India transaction included in net loss				(349)
COMPREHENSIVE INCOME (LOSS)	\$ 755	\$ (2,473)	\$ 1,803	\$ (236,763)

See notes to consolidated condensed financial statements.

Table of Contents**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS****(UNAUDITED)****1. BASIS OF PRESENTATION**

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (the Company or Primus) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission (SEC) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the three or nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The results for the three months and nine months ended September 30, 2007 and September 30, 2006 reflect the activities of certain operations as discontinued operations (see Note 10 Discontinued Operations).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Correction of error Subsequent to the issuance of the 2006 consolidated financial statements, the Company determined that \$5.1 million of foreign currency losses were improperly recorded in the 2005 consolidated statement of operations related to settlements of intercompany balances between foreign subsidiaries. Because those intercompany balances were long-term in nature, related foreign currency transaction gains and losses were previously recorded in the currency translation account, a component of accumulated other comprehensive loss, and should remain there until and unless the Company's investment in the foreign subsidiary is sold or liquidated.

As a result, the Company has corrected the presentation of the December 31, 2006 balances within the condensed consolidated balance sheet in this Quarterly Report on Form 10-Q. It is the Company's intention to correct its presentation for the years ended December 31, 2005 and 2006 in its 2007 Annual Report on Form 10-K.

The following is a summary of the effect of the immaterial restatement on the Company's 2005 and 2006 consolidated financial statements (in thousands, except for per share amounts). The adjustment has no impact on total stockholders' deficit for either year, but rather only on the components indicated below.

	For the year ended December 31,			2005
	2006	2006	2005	
	As Reported	As Restated	As Reported	As Restated
Foreign currency transaction gain (loss)	\$	\$	\$ (17,628)	\$ (12,485)
Net loss	\$	\$	\$ (154,380)	\$ (149,237)
Basic and diluted loss from continuing operations per common share	\$	\$	\$ (1.64)	\$ (1.58)
Basic and diluted net loss per common share	\$	\$	\$ (1.62)	\$ (1.56)

	December 31,			2005
	2006	2006	2005	
	As Reported	As Restated	As Reported	As Restated

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

Accumulated deficit	\$ (1,087,996)	\$ (1,082,853)	\$ (850,038)	\$ (844,895)
Accumulated other comprehensive loss	\$ (74,338)	\$ (79,481)	\$ (73,545)	\$ (78,688)

Table of Contents

Additionally, in its previous disclosures of consolidating financial information (see Note 12) the Company presented its entire consolidated currency translation account, which is a component of accumulated other comprehensive loss, as relating solely to non-guarantor, other subsidiaries. Subsequent to the issuance of the 2006 consolidated financial statements and considering the correction of error detailed above, the Company determined that it is more appropriate to allocate this amount between its guarantor and non-guarantor subsidiaries and to also reflect the related balances in each of the PTGI, PTHI and Guarantor Subsidiaries columns of the consolidating condensed balance sheets. Accordingly, the previous presentation of consolidating balance sheets at December 31, 2006 as contained in Note 12 have been corrected to reflect the amounts presented below: In each consolidating presentation, the above described changes are completely offset by corresponding increases in the elimination entries. Accordingly, these changes have no effect on the Company's consolidated financial statements.

	December 31, 2006				
	PTGI	PTHI	Other	Guarantor Subsidiaries	Non Guarantor Subsidiaries
Investment in subsidiaries	\$ (4,854)	\$ (707,997)	\$	\$ (129,392)	\$
Accumulated deficit	\$ (1,082,853)	\$ (1,088,104)	\$ (943,866)	\$ (1,088,104)	\$ (417,070)
Accumulated other comprehensive loss	\$ (79,481)	\$ (78,680)	\$ (69,975)	\$ (78,680)	\$ (74,720)

Principles of Consolidation The consolidated financial statements include the Company's accounts, its wholly-owned subsidiaries and all other subsidiaries over which the Company exerts control. All intercompany profits, transactions and balances have been eliminated in consolidation. The Company owns 90% of the common stock of Matrix Internet, S.A. (Matrix), of which 39% of the common stock of Matrix was purchased for cash in September 2007. In August 2007, the Company sold its full 51% interest of the shares of CS Communications Systems GmbH and CS Network GmbH (Citrus). The Company uses the equity method of accounting for its investment in Bekkoame Internet, Inc. (Bekko). The Company entered into a share purchase agreement in the second quarter 2007 to sell its minority equity interest in Bekko. The sale is expected to be completed by the end of 2007.

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

Stock-Based Compensation On January 1, 2006, the Company adopted Statement of Financial Accounting Standards(SFAS) No. 123(R), Share-Based Payments, which addresses the accounting for stock-based payment transactions whereby an entity receives employee services in exchange for equity instruments, including stock options. SFAS No. 123(R) eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and instead generally requires that such transactions be accounted for using a fair-value based method. The Company has elected the modified prospective transition method as permitted under SFAS No. 123(R), and accordingly prior periods have not been restated to reflect the impact of SFAS No. 123(R). The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options that are ultimately expected to vest as the requisite service is rendered beginning on January 1, 2006. Stock-based compensation for awards granted prior to January 1, 2006 is based upon the grant-date fair value of such compensation as determined under the pro forma provisions of SFAS No. 123, Accounting for Stock-Based Compensation. The Company issues new shares of common stock upon the exercise of stock options.

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123R-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. The Company elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of share-based compensation. The alternative transition method includes simplified methods to determine the beginning balance of the additional paid in capital (APIC) pool related to the tax effects

Table of Contents

of share-based compensation and to determine the subsequent impact on the APIC pool and the statement of cash flows of the tax effects of share-based award that were fully vested and outstanding upon the adoption of SFAS No. 123(R).

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

The Company recorded an incremental \$59 thousand and \$184 thousand stock-based compensation expense during the three months and nine months ended September 30, 2007 and an incremental \$246 thousand and \$481 thousand during the three months and nine months ended September 30, 2006, as a result of the adoption of SFAS No. 123(R).

Table of Contents

The Company granted 15,000 options during the three months ended September 30, 2007. The weighted average fair value at date of grant for options granted during the three months ended September 30, 2007 was \$0.26 per option. The Company granted 20,000 options during the three months ended September 30, 2006. The weighted average fair value at date of grant for options granted during the three months ended September 30, 2006 was \$0.29 per option. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	For the Three Months	
	Ended September 30,	2006
	2007	2006
Expected dividend yield	0%	0%
Expected stock price volatility	94.9%	94.9%
Risk-free interest rate	4.5%	5.1%
Expected option term	4 years	4 years

As of September 30, 2007, the Company had 0.9 million unvested awards outstanding of which \$0.3 million of compensation expense will be recognized over the weighted average remaining vesting period of 1.23 years.

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).

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

Reclassification Certain previous year amounts have been reclassified to conform with current year presentations, as related to the reporting of the Company's discontinued operations.

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company anticipates that the adoption of this standard will not have a material impact on our results of operations, financial position and cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value.

Table of Contents

measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurement. SFAS No. 157 does not require new fair value measurements, and the Company does not expect the application of this standard to change its current practices. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company anticipates that the adoption of this standard will not have a material impact on its results of operations, financial position and cash flows.

Newly Adopted Accounting Principle

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which is effective for fiscal years beginning after December 15, 2006. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. See Note 8 Income Taxes.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	As of September 30, 2007			As of December 31, 2006		
	Gross			Gross		
	Carrying Amount	Accumulated Amortization	Net Book Value	Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	\$ 4,021	\$ (2,341)	\$ 1,680	\$ 3,537	\$ (933)	\$ 2,604
Other	1,273	(1,152)	121	252	(94)	158
Total	\$ 5,294	\$ (3,493)	\$ 1,801	\$ 3,789	\$ (1,027)	\$ 2,762

Amortization expense for customer lists and other intangible assets for the three months ended September 30, 2007 and 2006 was \$0.6 million and \$0.7 million, respectively. Amortization expense for customer lists and other intangible assets for the nine months ended September 30, 2007 and 2006 was \$2.1 million and \$4.3 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the remainder of 2007 and the years ended December 31, 2008 and 2009 to be approximately \$0.4 million, \$1.2 million and \$0.2 million, respectively.

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

	As of	
	September 30, 2007	As of December 31, 2006
Goodwill	\$ 39,552	\$ 34,893

The changes in the carrying amount of goodwill for the nine months ended September 30, 2007 are as follows (in thousands):

	United States And Other	Canada	Asia-Pacific	Total
Balance as of January 1, 2007	\$	\$ 23,082	\$ 11,811	\$ 34,893
Goodwill acquired during period	188			188
Effect of change in foreign currency exchange rates	12	3,636	823	4,471

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

Balance as of September 30, 2007	\$	200	\$ 26,718	\$	12,634	\$ 39,552
----------------------------------	----	-----	-----------	----	--------	-----------

Table of Contents

4. LONG-TERM OBLIGATIONS

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

	September 30, 2007	December 31, 2006
Obligations under capital leases	\$ 7,438	\$ 6,451
Leased fiber capacity	11,613	13,543
Senior secured term loan facility	97,500	98,250
Financing facility	35,000	30,149
Senior notes	262,573	306,560
Senior secured notes	114,281	
Exchangeable senior notes	64,771	66,180
Convertible senior notes	76,106	75,842
Step up convertible subordinated debentures	20,044	23,534
Convertible subordinated debentures		22,702
Other	547	863
Subtotal	689,873	644,074
Less: Current portion of long-term obligations	(13,637)	(36,997)
Total long-term obligations	\$ 676,236	\$ 607,077

Payments of principal and interest of the September 30, 2007 long-term obligations are due as follows:

Year Ending December 31,	Senior Secured		Financing Facility and Other (2)	Senior Notes	Convertible and Exchangeable Senior Notes (3)	Step Up Convertible Subordinated Debentures	Senior Secured Notes	Total
	Vendor Financing	Term Loan Facility (1)						
2007 (as of September 30, 2007)	\$ 2,585	\$ 3,151	\$ 1,086	\$ 1,515	\$ 1,407	\$ 7,710	\$ 17,454	
2008	10,293	12,528	3,498	21,831	5,713	1,724	71,007	
2009	4,128	12,409	3,347	49,404	5,713	24,280	114,701	
2010	3,237	12,290	3,347	18,800	137,878		190,972	
2011	338	94,250	3,347	18,800			232,655	
Thereafter	719		35,881	282,000			318,600	
Total Minimum Principal & Interest Payments	21,300	134,628	50,506	392,350	150,711	26,004	169,890	945,389
Less: Amount Representing Interest	(2,249)	(37,128)	(14,959)	(129,777)	(17,139)	(3,522)	(61,680)	(266,454)
Face Value of Long-Term Obligations	19,051	97,500	35,547	262,573	133,572	22,482	108,210	678,935
Amount Representing Premium (Discount)					(1,143)	(2,438)	6,071	2,490
Add: Exchangeable Senior Notes Interest Treated as Long-Term Obligations					8,448			8,448
Book Value of Long Term Obligations	\$ 19,051	\$ 97,500	\$ 35,547	\$ 262,573	\$ 140,877	\$ 20,044	\$ 114,281	\$ 689,873

-
- (1) For preparation of this table, we have assumed the interest rate of the Senior Secured Term Loan Facility to be 11.9%, which is the interest rate at September 30, 2007.

Table of Contents

- (2) For preparation of this table, we have assumed the interest rate of the Financing Facility to be 9.38%, which is the interest rate at September 30, 2007.
- (3) For preparation of this table, we have shown separately the cash interest payments of PTHI's (as defined below) 5% Exchangeable Senior Notes as a portion of long-term obligations (see *Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures* below). The interest due on the 5% Exchangeable Senior Notes in 2007, 2008, 2009 and 2010 is \$1.4 million, \$2.8 million, \$2.8 million and \$1.4 million, respectively. The indentures governing the senior notes, senior secured notes, senior secured term loan facility, convertible senior notes, step up convertible subordinated debentures and convertible subordinated debentures, as well as other credit arrangements, contain certain financial and other covenants which, among other things, will restrict the Company's ability to incur further indebtedness and make certain payments, including the payment of dividends and repurchase of subordinated debt held by the Company. The Company was in compliance with the above covenants at September 30, 2007.

Senior Secured Term Loan Facility

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

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

In February 2007, the Company received unanimous consent to an amendment of its existing \$100 million Facility. This amendment enables Primus Telecommunications IHC, Inc. (IHC), a wholly-owned subsidiary of the Company, to issue and have outstanding up to \$200 million of existing authorized indebtedness in the form of newly authorized secured notes with a second lien security position (1³/₄% Senior Secured Notes). The amendment allowed for an increase of 1/4% to the interest rate of the Facility and adjusted the early call features. The effective interest rate for the Facility at September 30, 2007 was 11.9%.

Financing Facility

In March 2007, the Company entered into a Senior Secured Credit Agreement (Credit Agreement) with a financial institution, to refinance an existing Canadian credit facility. The Credit Agreement provides for a \$35.0 million non-amortizing loan bearing interest at a rate of LIBOR plus 425 basis points and matures in 2012. The loan proceeds were used to refinance the existing Canadian credit facility, including certain costs related to the transaction, and to finance certain capital expenditures. The Credit Agreement is secured by the assets of the Company's Canadian operations and certain guarantees. At September 30, 2007, the Company had an outstanding liability of \$35.0 million. The interest rate for the new Credit Agreement at September 30, 2007 was 9.38%. In October 2007, the Company completed a forward currency contract, required by the Credit Agreement, which also fixed the interest rate at 9.21% starting from October 31, 2007.

In April 2004, Primus Canada entered into a loan agreement with a Canadian financial institution. The agreement provided for a \$41.9 million (42.0 million Canadian Dollar (CAD)) two-year secured non-revolving

Table of Contents

term loan credit facility, bearing an interest rate of 7.75%. The agreement allowed the proceeds to be used for general corporate purposes of the Company and was secured by the assets of Primus Canada's operations. In October 2004, Primus Canada signed an amendment to the April 2004 loan agreement that extended the maturity date by one year to April 2007. In January 2006, Primus Canada entered into a second Amended and Restated Loan Agreement (Second Amended Agreement) that extended the maturity date by a further one year to April 2008. The Second Amended Agreement was a four-year non-revolving term loan credit facility bearing an interest rate of 7.75%. The new agreement reduced the maximum loan balance from \$41.9 million (42.0 million CAD) to \$31.9 million (32.0 million CAD) and established quarterly principal payments of \$1.0 million (1.0 million CAD) commencing in April 2007. In February 2006, the Company drew the remaining \$17.0 million (17.0 million CAD) available under the amended loan facility. At December 31, 2006, the Company had an outstanding liability of \$31.9 million (32.0 million CAD). An affiliate of Primus Canada had an additional loan facility agreement with the Canadian financial institution, which was guaranteed by Primus Canada, and had a liability under this facility of \$3.0 million (3.0 million CAD) at December 31, 2006. In March 2007, these facilities were paid in full.

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

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

In the second quarter 2006, the Company completed the exchange of \$54.8 million principal amount of the Company's 3 3/4% convertible senior notes due 2010 (2003 Convertible Senior Notes) and \$20.5 million in cash for \$56.3 million principal amount of PTHI's 5% Exchangeable Senior Notes. This exchange has been deemed a troubled debt restructuring, and accordingly, has been accounted for as a modification of debt, with total future cash payments of \$67.6 million being recorded in long-term obligations. The Company recognized a gain on restructuring of debt of \$4.8 million in connection with this exchange, including the expensing of \$2.9 million of financing costs. The 5% Exchangeable Senior Notes mature on June 30, 2010, as a result of the Company increasing its equity (through designated transactions) in the aggregate of \$25 million during June and July 2007. Interest on the 5% Exchangeable Senior Notes will be paid at the rate of 5% per annum on each June 30 and December 30, beginning on December 30, 2006. Under certain circumstances, the Company may elect to make interest payments in shares of common stock, although the holders of the 5% Exchangeable Senior Notes are entitled to receive the first two semi-annual interest payments wholly in cash. The 5% Exchangeable Senior Notes are exchangeable, in the aggregate, into 46,935,833 shares of the Company's common stock at a conversion price of \$1.20 per share of common stock, subject to adjustment. If the closing bid price of the Company's common stock, for at least 20 trading days in any consecutive 30 trading-day period, exceeds 150% of the conversion price then in effect, the Company may elect to exchange the senior notes for shares of the Company's common stock at the conversion price, subject to certain conditions, including that no more than 50%

Table of Contents

of the 5% Exchangeable Senior Notes may be exchanged by the Company within any 30-day period. As of September 30, 2007, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may require the Company to repurchase the 5% Exchangeable Senior Notes at which time the Company has the option to settle in cash or common stock at an adjusted conversion price. The 5% Exchangeable Senior Notes are guaranteed by Primus Telecommunications Group, Incorporated (PTGI) (see Note 12 Guarantor/Non-Guarantor Consolidating Condensed Financial Information).

In the first quarter 2006, the Company completed the exchange of \$27.4 million principal amount of the Company's 3/4% convertible subordinated debentures due 2007 (2000 Convertible Subordinated Debentures) for \$27.5 million principal amount of the Company's step up convertible subordinated debentures due August 2009 (Step Up Convertible Subordinated Debentures) through two transactions. The Company recognized a gain on early extinguishment of debt of \$1.5 million in connection with this exchange. The Step Up Convertible Subordinated Debentures will mature on August 15, 2009. Interest will be payable from February 27, 2006 to December 31, 2006 at the rate of 6% per annum; from January 1, 2007 to December 31, 2007 at the rate of 7% per annum; and from January 1, 2008 to maturity at the rate of 8% per annum. Accrued interest will be paid each February 15 and August 15, beginning August 15, 2006, to holders of record on the preceding February 1 and August 1, respectively. The Step Up Convertible Subordinated Debentures are convertible into the Company's common stock at a conversion price of \$1.187 per share of common stock through August 15, 2009. The outstanding Step Up Convertible Subordinated Debentures are convertible in the aggregate into 18,939,343 shares of the Company's common stock. The Indenture permits the Company, at its sole option, to require conversion if the Company's stock trades at 150% of the conversion price for at least 20 days within a 30 day period, subject to certain conditions, including that no more than 25% of the notes may be exchanged within any 30 day trading period. As of September 30, 2007, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price. During the quarter ended June 30, 2007, the Company exchanged 6,000,000 shares of the Company's common stock for the extinguishment of \$5.0 million in principal amount of these convertible subordinated debentures. In accordance with SFAS No. 84, Induced Conversion of Convertible Debt, the Company recognized an induced conversion expense of \$1.6 million and \$0.7 million write-off of debt discount and deferred financing costs in connection with this conversion.

At the time of issuance of the Step Up Convertible Subordinated Debentures, the Company did not have sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Accordingly, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 2003 Convertible Senior Notes were hybrid instruments with characteristics of a debt host agreement and contained embedded derivative features that had characteristics and risks that were not clearly and closely associated with the debt host. In the first quarter 2006, the conversion options were determined to be derivative instruments to be bifurcated and recorded as a current liability at fair value. In the second quarter 2006, the Company's shareholders voted to approve alternative proposals to authorize an amendment to the Company's Certificate of Incorporation to affect a one-for-ten reverse stock split or to authorize an amendment of the Company's Certificate of Incorporation allowing an increase of authorized common stock from 150,000,000 to 300,000,000. Either authorization ensured the Company would have the ability to control whether it has sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Therefore, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 2003 Convertible Senior Notes did not contain embedded derivative features as of the date of the shareholder vote, June 20, 2006, and added back the June 20, 2006 fair value of the embedded derivative into the debt balance. On July 27, 2006, the Board of Directors determined to increase the authorized shares of the common stock to 300,000,000.

The Company recorded a corresponding debt discount to the Step Up Convertible Subordinated Debentures and the 2003 Convertible Senior Notes in the amount of the fair value of the embedded derivative at the issue

Table of Contents

date. An additional debt discount of \$1.7 million was recorded for the Step Up Convertible Subordinated Debentures to bring the carrying value to fair value. The carrying value of the Step Up Convertible Subordinated Debentures at issuance was approximately \$14.3 million, and the carrying value of the 2003 Convertible Senior Notes at issuance of the Step Up Convertible Subordinated Debentures was approximately \$127.8 million. The Company is accreting the difference between the face values of the Step Up Convertible Subordinated Debentures and the 2003 Convertible Senior Notes and the corresponding carrying values to interest expense under the effective interest method on a monthly basis over the lives of the Step Up Convertible Subordinated Debentures and the 2003 Convertible Senior Notes. At September 30, 2007, the carrying value of the Step Up Convertible Subordinated Debentures (face value of \$22.5 million) was \$20.0 million, and the carrying value of the 2003 Convertible Senior Notes (face value of \$77.3 million) was \$76.1 million. The effective interest rate of the Step Up Convertible Subordinated Debentures and the 2003 Convertible Senior Notes at September 30, 2007 was 14.6% and 5.4%, respectively.

In January 2004, PTHI, a direct, wholly-owned subsidiary of the Company, completed the sale of \$240 million in aggregate principal amount of 8% senior notes due 2014 (2004 Senior Notes) with semi-annual interest payments due on January¹⁵th and July 15th, with early redemption at a premium to par at PTHI's option at any time after January 15, 2009. The Company recorded \$6.7 million in costs associated with the issuance of the 2004 Senior Notes, which have been recorded as deferred financing costs in other assets. The effective interest rate at September 30, 2007 was 8.4%. During specified periods, PTHI may redeem up to 35% of the original aggregate principal amount with the net cash proceeds of certain equity offerings of the Company. The 2004 Senior Notes are guaranteed by PTGI (see Note 12 Guarantor/Non-Guarantor Consolidating Condensed Financial Information). During the year ended December 31, 2004, the Company reduced \$5.0 million principal balance of the 2004 Senior Notes through open market purchases.

In September 2003, the Company completed the sale of \$132 million in aggregate principal amount of 2003 Convertible Senior Notes with semi-annual interest payments due on March 15th and September 15th. The Company recorded \$5.2 million in costs associated with the issuance of the 2003 Convertible Senior Notes, which have been recorded as deferred financing costs in other assets. Holders of these notes may convert their notes into the Company's common stock at any time prior to maturity at an initial conversion price of \$9.3234 per share, which is equivalent to an initial conversion rate of 107.257 shares per \$1,000 principal amount of the notes, subject to adjustment in certain circumstances. The outstanding notes are convertible in the aggregate into 8,285,603 shares of the Company's common stock. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price. In the second quarter 2006, the Company restructured \$54.8 million principal amount of 2003 Convertible Senior Notes; see prior disclosure regarding the 5% Exchangeable Senior Notes within this footnote.

In February 2000, the Company completed the sale of \$250 million in aggregate principal amount of 2000 Convertible Subordinated Debentures with semi-annual interest payments due on February 15th and August 15th. On March 13, 2000, the Company announced that the initial purchasers of the 2000 Convertible Subordinated Debentures had exercised their \$50 million over-allotment option granted pursuant to a purchase agreement dated February 17, 2000. During the years ended December 31, 2001 and 2000, the Company reduced \$36.4 million principal balance of the debentures through open market purchases and \$192.5 million principal balance through exchanges for its common stock. The principal that was exchanged for 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. During the year ended December 31, 2004, the Company retired \$4.0 million principal amount of the 2000 Convertible Subordinated Debentures through open market purchases. During the year ended December 31, 2005, the Company exchanged 9,820,000 shares of the Company's common stock for the extinguishment of \$17.0 million principal amount of these debentures. In accordance with SFAS No. 84, Induced Conversion of Convertible Debt, the Company recognized an induced conversion expense of \$6.1 million in connection with this

Table of Contents

conversion. During the quarter ended March 31, 2006, the Company exchanged \$27.4 million of the 2000 Convertible Subordinated Debentures for \$27.5 million principal amount of the Company's Step Up Convertible Subordinated Debentures. The remaining \$22.7 million of the 2000 Convertible Subordinated Debentures were paid in full upon maturity on February 15, 2007.

In October 1999, the Company completed the sale of \$250 million in aggregate principal amount of 12.75% senior notes due 2009 (the October 1999 Senior Notes). The October 1999 Senior Notes are due October 15, 2009, with semi-annual interest payments due on October 15 and April 15th with early redemption at a premium to par at the Company's option at any time after October 15, 2004 and with an early redemption at par at the Company's option at any time after October 15, 2007. During the years ended December 31, 2002, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In June and September 2002, the Company retired all of the October 1999 Senior Notes that it had previously purchased in the principal amount of \$134.3 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. During the year ended December 31, 2004, the Company retired \$33.0 million principal amount of the October 1999 Senior Notes through open market purchases. During the year ended December 31, 2005, the Company exchanged 5,165,175 shares of the Company's common stock for the extinguishment of \$8.6 million principal amount of these senior notes. During the quarter ended March 31, 2006, the Company exchanged 1,825,000 shares of the Company's common stock for the extinguishment of \$2.5 million principal amount of these senior notes. During the first quarter 2007, the Company restructured with respect to the October 1999 Senior Notes \$40.7 million principal amount of the October 1999 Senior Notes; the Company entered into a supplemental indenture, amending the terms to eliminate certain covenants. See prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote. During the quarter ended September 30, 2007, the Company retired \$3.2 million principal amount of the October 1999 Senior Notes through open market purchases. See Note 13 Subsequent Events.

Leased Fiber Capacity

Beginning 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. The Company agreed to purchase \$12.2 million of additional fiber optic capacity from SCCL under the IRU agreement. The Company has fulfilled the total purchase obligation and made additional purchases of \$3.8 million in 2004. During the fourth quarter 2006, the Company signed a new agreement with SCCL which requires the Company to purchase an additional \$1.7 million of capacity in 2007 and extends and straight-lines the payment schedule to March 2014. The additional capacity was purchased in April 2007. The effective interest rate on current borrowings is 7.75%. At September 30, 2007 and December 31, 2006, the Company had a liability recorded under this agreement in the amount of \$5.5 million and \$5.6 million, respectively.

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity in Australia for 51.1 million Australian dollars (AUD) (\$28.5 million at December 31, 2000) from Optus Networks Pty. Limited. As of December 31, 2001, the Company had fulfilled the total purchase obligation. The Company signed a promissory note payable over a four-year term ending in April 2005 bearing interest at a rate of 14.31%. During the three months ended June 30, 2003, the Company renegotiated the payment terms extending the payment schedule through March 2007, and lowering the interest rate to 10.2%. In October 2006, the Company renegotiated the payment terms of its promissory note payable to Optus Networks Pty. Limited to defer principal payments from April 2006 through December 2006 and was obligated to pay the remaining balance in three equal monthly principal payments in the first quarter 2007. In February 2007, the Company again renegotiated the payment terms of its \$8.9 million (10.1 million AUD) promissory note payable to Optus Networks Pty. Limited to extend the payment schedule through December 2008 in 24 equal monthly payments. The interest rate remains 10.2%, and the interest payments continue monthly. At September 30, 2007 and December 31, 2006, the Company had a liability recorded in the amount of \$6.1 million (6.9 million AUD) and \$8.9 million (10.1 million AUD), respectively.

Table of Contents*Equipment Financing and Other Long-Term Obligations*

In November 2005, Primus Australia entered into a financing arrangement for network equipment. Payments are made over a five-year term ending October 2010. The effective interest rate on the current borrowing is 9.3%. At September 30, 2007 and December 31, 2006, the Company had a liability recorded under this agreement in the amount \$5.0 million (5.7 million AUD) and \$5.8 million (6.6 million AUD), respectively.

5. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and leased fiber capacity financing (Vendor Financing), purchase obligations and non-cancelable operating leases as of September 30, 2007 are as follows (in thousands):

Year Ending December 31,	Vendor Financing	Purchase Obligations	Operating Leases
2007 (as of September 30, 2007)	\$ 2,585	\$ 7,528	\$ 3,704
2008	10,293	19,567	10,663
2009	4,128	6,511	7,406
2010	3,237	2,300	4,676
2011	338	1,568	1,640
Thereafter	719	784	1,834
Total minimum lease payments	21,300	38,258	29,923
Less: Amount representing interest	(2,249)		
	\$ 19,051	\$ 38,258	\$ 29,923

The Company has contractual obligations to utilize an external vendor for certain customer support functions and to utilize network facilities from certain carriers with terms greater than one year. The Company does not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term or at rates below or above market value. The Company made purchases under purchase commitments of \$7.1 million and \$2.6 million for the three months ended September 30, 2007 and September 30, 2006, respectively. The Company made purchases under purchase commitments of \$7.2 million and \$8.7 million for the nine months ended September 30, 2007 and September 30, 2006, respectively.

Rent expense under operating leases was \$4.5 million and \$4.1 million for the three months ended September 30, 2007 and 2006, respectively. Rent expense under operating leases was \$12.6 million and \$12.4 million for the nine months ended September 30, 2007 and 2006, respectively.

Litigation

On January 26, 2007, a group of plaintiffs who allegedly held approximately \$91 million principal amount of 8% Senior Notes due 2014 issued by Primus Telecommunications Holding, Inc., (Holding), a wholly owned subsidiary of Primus Telecommunications Group, Incorporated (Group), filed suit in the United States District Court for the Southern District of New York alleging, among other things, that Group and Holding were insolvent and that funds to be used to make a February 15, 2007 principal payment of \$22.7 million to holders of Group s outstanding 2000 Convertible Subordinated Debentures had been or would be impermissibly transferred from Holding or its subsidiaries to Group. The plaintiffs allege that the intercompany transfers were or would be fraudulent conveyances or illegal dividends and that the February 15, 2007 payment by Group to holders of the 2000 Convertible Subordinated Debentures also would be a fraudulent transfer. The complaint sought declarative and injunctive relief to prevent, set aside or declare illegal or fraudulent certain transfers of funds from Holding to Group and injunctive relief to prevent certain payments or disbursements of funds by Group in respect of outstanding obligations of Group that were payable, including the \$22.7 million payable by Group in respect of Group s outstanding 2000 Convertible Subordinated Debentures due February 15, 2007. Plaintiffs were allowed

Table of Contents

expedited discovery and moved for a preliminary injunction to prevent Group from making the February 15, 2007 payment. On February 14, 2007, after a three-day trial, the plaintiffs' request for a preliminary injunction was denied by the court. Accordingly, on February 15, 2007, Group satisfied and paid the \$22.7 million in respect of the 2000 Convertible Subordinated Debentures. On July 27, 2007, the remaining plaintiffs filed with the court their Notice of Dismissal, without prejudice, of all claims asserted against Group and Holding.

On July 16, 2007, Rates Technology, Inc. (RTI) filed a complaint in the United States District Court for the District of Delaware alleging that Lingo VoIP services and technology infringe United States Patent Nos. 5,425,085 and 5,519,769. On September 27, 2007, the Company and RTI executed a Covenant Not to Sue in which Primus, among other things, denied infringement. The amount of the settlement is not material.

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

6. SHARE-BASED COMPENSATION

The Company sponsors an employee stock option plan (the Equity Incentive Plan). The total number of shares of common stock authorized for issuance under the Equity Incentive Plan is 13,000,000. Under the Equity Incentive Plan, awards may be granted to key employees or consultants of the Company and its subsidiaries in the form of Incentive Stock Options or Nonqualified Stock Options. The Equity Incentive Plan allows the granting of options at an exercise price of not less than 100% of the stock's fair value at the date of grant. 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. On June 16, 2004, the stockholders of the Company approved amendments to the Equity Incentive Plan, including (i) renaming the employee stock option plan the Equity Incentive Plan ; (ii) expanding the forms of awards permitted to be granted, including stock appreciation rights, restricted stock awards, stock units and other equity securities, and authorizing a tax deferral feature for executive officers; (iii) prohibiting the repricing of stock options in the future without stockholder approval; and (iv) requiring three-year vesting of restricted stock and stock unit awards, unless accelerated following the first anniversary of the award due to the satisfaction of predetermined performance conditions.

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

Table of Contents

A summary of stock option activity during the nine months ended September 30 is as follows:

	2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding January 1	7,919,267	\$ 2.15	9,312,945	\$ 2.36
Granted	105,000	\$ 0.96	797,500	\$ 0.76
Exercised		\$		\$
Forfeitures	(613,522)	\$ 2.61	(1,804,638)	\$ 2.44
Outstanding end of quarter	7,410,745	\$ 2.10	8,305,807	\$ 2.18
Eligible for exercise end of quarter	6,548,726	\$ 2.26	6,725,234	\$ 2.49

The following table summarizes information about stock options outstanding at September 30, 2007:

Range of Option Prices	Total Outstanding	Options Outstanding			Total Exercisable	Options Exercisable		
		Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value		Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value
\$ 0.53 to \$ 0.64	179,834	5.52	\$ 0.62	\$ 12,588	149,167	5.88	\$ 0.61	\$ 11,933
\$ 0.73 to \$ 0.88	732,333	7.91	\$ 0.79	\$	412,331	7.53	\$ 0.78	\$
\$ 0.90	770,512	3.77	\$ 0.90	\$	770,512	3.77	\$ 0.90	\$
\$ 0.92	922,238	8.10	\$ 0.92	\$	470,888	8.10	\$ 0.92	\$
\$ 0.93 to \$ 0.99	110,000	5.39	\$ 0.98	\$	50,000	6.18	\$ 0.97	\$
\$ 1.33 to \$ 1.61	19,500	6.05	\$ 1.47	\$	19,500	6.05	\$ 1.47	\$
\$ 1.65	1,544,698	5.22	\$ 1.65	\$	1,544,698	5.22	\$ 1.65	\$
\$ 1.80 to \$ 2.38	1,789,030	5.11	\$ 1.98	\$	1,789,030	5.11	\$ 1.98	\$
\$ 3.03 to \$ 6.30	1,316,500	6.64	\$ 5.00	\$	1,316,500	6.64	\$ 5.00	\$
\$ 12.31 to \$ 17.44	17,300	1.80	\$ 15.00	\$	17,300	1.80	\$ 15.00	\$
\$ 31.94 to \$ 33.38	8,800	2.34	\$ 31.94	\$	8,800	2.34	\$ 31.94	\$
	7,410,745	5.92	\$ 2.10	\$ 12,588	6,548,726	5.67	\$ 2.26	\$ 11,933

The number of unvested options expected to vest is 0.4 million shares, with a weighted average remaining life of 7.8 years, a weighted average exercise price of \$0.81, and with an intrinsic value of \$2 thousand.

In December 1998, the Company established the 1998 Restricted Stock Plan (the Restricted Plan) to facilitate the grant of restricted stock to selected individuals (excluding executive officers and directors of the Company) who contribute to the development and success of the Company. The total number of shares of common stock that may be granted under the Restricted Plan is 750,000. The Company did not issue any restricted stock under the Restricted Plan for the three months and nine months ended September 30, 2007 and 2006. As of September 30, 2007, 54,000 shares have been issued, and none are considered restricted.

7. GAIN OR LOSS ON EARLY EXTINGUISHMENT OF DEBT

During the third quarter 2007, the Company made open market purchases of \$3.2 million principal amount of its October 1999 Senior Notes resulting in a \$43 thousand gain on early extinguishment of debt including the write-off of related deferred financing costs. The Company also

recognized \$0.5 million gain on forgiveness of equipment financing.

Table of Contents

In June 2007, the Company exchanged 6,000,000 shares of the Company's common stock for the extinguishment of \$5.0 million principal amount of its Step Up Convertible Subordinated Debentures resulting in a loss on early extinguishment of debt of \$2.3 million, including the write-off of related deferred financing costs and debt discount.

In March 2007, the Company refinanced an existing Canadian credit facility and recognized a \$0.9 million loss on early extinguishment of debt for pre-payment penalties and the write-off of related deferred financing costs.

In February 2007, IHC issued in a private transaction \$57.2 million principal amount of the 14 1/4% Senior Secured Notes, in exchange for \$40.7 million principal amount of the Company's outstanding October 1999 Senior Notes and \$23.6 million in cash. The Company recognized a loss on restructuring of debt of \$5.1 million in connection with this exchange.

In 2006, the Company issued \$56.3 million principal amount of PTHI's 5% Exchangeable Senior Notes in exchange for \$20.5 million of cash and the retirement of \$54.8 million principal amount of the Company's 2003 Convertible Notes. This exchange has been accounted for as a troubled debt restructuring, resulting in \$11.3 million of future cash payments being recognized as long-term obligations and a gain on restructuring of debt of \$4.8 million.

In March 2006, the Company exchanged \$27.4 million principal amount of the Company's 2000 Convertible Subordinated Debentures for \$27.5 million principal amount of the Company's 2006 Step Up Convertible Subordinated Debentures resulting in a gain on early extinguishment of debt of \$1.5 million including the write-off of related deferred financing costs. In January 2006, the Company exchanged 1,825,000 shares of the Company's common stock for the extinguishment of \$2.5 million in principal amount of the October 1999 Senior Notes resulting in a \$1.2 million gain on early extinguishment of debt including the write-off of related deferred financing costs.

8. INCOME TAXES

On January 1, 2007, the Company adopted FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return.

As a result of the implementation of FIN No. 48, the Company recorded adjustments to increase its unrecognized tax benefits by \$100.1 million, with no net impact to the consolidated statement of operations. Of this amount, \$6.0 million was accounted for as an increase to the January 1, 2007 balance of accumulated deficit. The remainder of \$94.1 million resulted in a reduction of deferred tax assets offset by an equal adjustment to the valuation allowance. The total of unrecognized tax benefits on the consolidated balance sheet was \$105.1 million as of January 1, 2007. Total unrecognized tax benefits of \$11.1 million, if recognized, would affect the effective tax rate. Penalties and income tax-related interest expense are reported as a component of income tax expense. As of January 1, 2007, the total amount of accrued income tax-related interest and penalties was \$2.8 million.

During the three months ended June 30, 2007, the Company's Australian subsidiaries received notice that the Australian Taxation Office (ATO) had completed its tax risk review of certain years with respect to various tax positions of the Company. The Company remeasured the unrecognized tax benefits for various tax positions, based on the ATO's completed reviews and other new information, resulting in a \$9.7 million reduction in the unrecognized tax benefit and associated interest established upon adoption of FIN No. 48. Of the total reduction, \$2.9 million resulted in an increase in deferred tax assets offset by an equal adjustment to the

Table of Contents

valuation allowance, and \$6.8 million resulted in an increase to the income tax benefit in the Statement of Operations. Also during this period, the Company recorded an additional \$0.3 million of interest and penalties associated with other unrecognized tax benefits.

While it is expected that the amount of unrecognized tax benefits will change in the next 12 months, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company.

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

Jurisdiction	Open Tax Years
United States Federal	2000, 2002-2006
Canada	1999-2006
United Kingdom	2001-2006
Australia	1998-2006

The Company is currently undergoing examination in Canada for the year 2000, 2001 and 2002 with expected completion during the fourth quarter 2007. The Company was notified and commenced an examination for tax years 2002, 2003, 2004 and 2005 in the Netherlands during the third quarter of 2007. Based on the ongoing examinations, the Company has remeasured its liability in the third quarter and recorded additional interest and penalties of \$1.3 million. The Company is also currently under examination in other foreign tax jurisdictions, none of which are individually material.

During 2007, the Company reorganized certain foreign legal entities for business and operational efficiency reasons. In connection with this reorganization, the Company will seek a ruling from the Internal Revenue Service that would affect the Company's United States federal income tax consequences of the reorganization. In the event the Company does not receive a favorable ruling from the Internal Revenue Service, the reorganization may result in significant taxable gain for United States federal income tax purposes. Such gain would reduce the Company's net operating losses (NOLs) and thereby reduce the Company's corresponding gross deferred tax asset and gross valuation allowance. A gain in excess of NOLs, if any, would result in a current United States tax liability.

During 2007 and testing periods under Internal Revenue Code Section 382 (382), the Company had substantial changes to its 5% shareholder base as reported in SEC 13G filings. Additionally, the Company has issued new equity during the testing period including a secondary offering during the third quarter of this year. Based on the shifts in 5% shareholders and the equity offerings, the Company believes that a 382 ownership shift occurred during the current year. The resulting 382 limitation would place severe limits on the Company's ability to utilize the United States net operating losses.

9. OPERATING SEGMENT AND RELATED INFORMATION

The Company has five reportable operating segments based on management's organization of the enterprise into geographic areas: United States, Canada, Europe and Asia-Pacific, with the wholesale business within each region managed as a separate global segment. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Net revenue by geographic segment is reported on the basis of where services are provided. The Company has no single customer representing greater than 10% of its revenues. Operations and assets of the United States segment include shared corporate functions and assets, which the Company does not allocate to its other geographic segments for management reporting purposes. The wholesale business' assets are indistinguishable from the respective geographic segments. Therefore, any reporting related to the wholesale business for assets, capital expenditures or other balance sheet items is impractical.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net Revenue by Geographic Region				
United States				
<i>United States</i>	\$ 39,399	\$ 48,572	\$ 128,155	\$ 142,552
<i>Other</i>	2,328	1,034	4,994	3,009
Total United States	41,727	49,606	133,149	145,561
Canada				
<i>Canada</i>	66,730	68,251	193,101	208,935
Total Canada	66,730	68,251	193,101	208,935
Europe				
<i>United Kingdom</i>	22,665	19,876	72,638	63,203
<i>Germany</i>	6,688	11,077	18,748	31,926
<i>Other</i>	15,872	19,821	46,137	78,848
Total Europe	45,225	50,774	137,523	173,977
Asia-Pacific				
<i>Australia</i>	70,744	75,175	212,895	229,340
<i>Other</i>	857	1,513	2,992	5,211
Total Asia-Pacific	71,601	76,688	215,887	234,551
Total net revenue	\$ 225,283	\$ 245,319	\$ 679,660	\$ 763,024
Net Revenue by Segment				
United States	\$ 27,053	\$ 29,302	\$ 82,797	\$ 87,504
Canada	66,728	68,235	192,890	207,826
Europe	17,397	19,880	57,813	78,703
Asia-Pacific	71,400	76,056	214,951	232,110
Wholesale	42,705	51,846	131,209	156,881
Total	\$ 225,283	\$ 245,319	\$ 679,660	\$ 763,024
Provision for Doubtful Accounts Receivable				
United States	\$ 613	\$ 80	\$ 1,347	\$ 2,105
Canada	775	611	2,056	2,750
Europe	410	1,228	553	2,872
Asia-Pacific	461	707	2,811	2,559
Wholesale	214	341	594	850
Total	\$ 2,473	\$ 2,967	\$ 7,361	\$ 11,136
Income (Loss) from Operations				
United States	\$ (1,681)	\$ (863)	\$ (5,623)	\$ (79,507)
Canada	8,841	11,656	27,523	(27,927)

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

Europe	(3,188)	(4,208)	(7,538)	(38,426)
Asia-Pacific	4,868	2,421	11,854	(77,941)
Wholesale	(120)	227	(1,789)	(155)
Total	\$ 8,720	\$ 9,233	\$ 24,427	\$ (223,956)

Capital Expenditures

United States	\$ 737	\$ 575	\$ 1,566	\$ 2,011
Canada	6,636	4,158	15,973	12,261
Europe	856	473	3,385	1,090
Asia-Pacific	4,447	2,600	8,793	8,564
Total	\$ 12,676	\$ 7,806	\$ 29,717	\$ 23,926

Table of Contents

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

	September 30, 2007	December 31, 2006
Assets		
United States		
<i>United States</i>	\$ 108,404	\$ 63,601
<i>Other</i>	5,200	3,410
Total United States	113,604	67,011
Canada		
<i>Canada</i>	143,777	111,838
Total Canada	143,777	111,838
Europe		
<i>United Kingdom</i>	25,423	19,875
<i>Germany</i>	9,181	10,416
<i>Other</i>	53,527	51,661
Total Europe	88,131	81,952
Asia-Pacific		
<i>Australia</i>	122,151	124,451
<i>Other</i>	3,868	6,998
Total Asia-Pacific	126,019	131,449
Total	\$ 471,531	\$ 392,250

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Voice	\$ 150,201	\$ 172,936	\$ 456,354	\$ 549,020
Data/Internet	45,107	41,152	133,260	123,919
VOIP	29,975	31,231	90,046	90,085
Total	\$ 225,283	\$ 245,319	\$ 679,660	\$ 763,024

10. DISCONTINUED OPERATIONS

In August 2007, the Company sold its 51% interest in its German telephone installation system subsidiaries. The sale price was \$0.8 million (0.6 million Euros), which included \$0.5 million (0.4 million Euros) in cash and \$0.3 million (0.2 million Euros) for payment of outstanding intercompany debt. For the intercompany debt payment, the Company received \$0.1 million (0.1 million Euros) in cash at closing. The balance owing is represented by a note receivable and will be paid in fifteen equal installment payments. As a result, the Company recorded a \$0.2 million gain from sale of assets as of September 30, 2007. Net assets held for sale were \$0.6 million at the closing date.

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

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

Table of Contents

In May 2006, the Company entered into a Share Purchase Agreement (SPA) with Videsh Sanchar Nigam Limited (VSNL), a leading international telecommunications company and member of the TATA Group, whereby VSNL purchased 100% of the stock of Direct Internet Limited (DIL), whose wholly-owned subsidiary, Primus Telecommunications India Limited (PTIL), was primarily engaged in providing fixed broadband wireless Internet services to enterprise and retail customers in India. The Company owned approximately 85% of the stock of DIL through an indirect wholly-owned subsidiary. The remaining approximately 15% of the stock of DIL was owned by the manager of DIL and PTIL, who had founded the predecessor companies. The total purchase consideration was \$17.5 million. The Company received \$13.0 million in net cash proceeds from the transaction at closing on June 23, 2006, after closing adjustments. Under the SPA, the Company agreed to certain non-compete provisions regarding the business of DIL and PTIL and is a party to the SPA for the purpose of guaranteeing indemnity obligations of its subsidiary selling the stock of DIL. The net assets of DIL were \$8.9 million at June 23, 2006.

As a result of these events, the Company's consolidated financial statements reflect Citrus, Planet Domain and the India operations as discontinued operations for the three months and nine months ended September 30, 2007 and September 30, 2006. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income from discontinued operations.

Summarized operating results of the discontinued operations for the three months and nine months ended September 30, 2007 and September 30, 2006 are as follows (in thousands):

	Three Months		Nine Months	
	Ended		Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Net revenues	\$ 1,025	\$ 2,384	\$ 3,806	\$ 12,186
Operating expenses	874	2,040	3,639	10,127
Income from operations	151	344	167	2,059
Interest expense	(11)	(11)	(25)	(28)
Interest income and other income (expense)			3	49
Income (loss) before income tax	140	333	145	2,080
Income tax expenses				(78)
Income (loss) from discontinued operations	\$ 140	\$ 333	\$ 145	\$ 2,002

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

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

Diluted income per common share adjusts basic income per common share for the effects of potentially dilutive common share equivalents. Potentially dilutive common shares primarily include the dilutive effects of common shares issuable under the Company's stock option compensation plans computed using the treasury stock method and the dilutive effects of shares issuable upon conversion of its 2003 Convertible Senior Notes, 2000 Convertible Subordinated Debentures, the Step Up Convertible Subordinated Debentures and 5% Exchangeable Senior Notes.

For the three months ended September 30, 2007, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted loss per common share due to their antidilutive effects:

6.6 million shares issuable upon exercise of stock options, and

Table of Contents

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

For the nine months ended September 30, 2007, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted loss per common share due to their antidilutive effects:

7.2 million shares issuable upon exercise of stock options,

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

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

For the three and nine months ended September 30, 2006, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income (loss) per common share due to their antidilutive effects:

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

-0- and 46.9 million shares, respectively, issuable upon the conversion of the 5% Exchangeable Senior Notes,

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

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Income (loss) from continuing operations	\$ 4,449	\$ (212)	\$ 7,945	\$ (244,948)
Income from discontinued operations, net of tax	140	333	145	2,002
Gain from sale of discontinued operations, net of tax	174		6,132	7,415
Income (loss) attributable to common stockholders - basic and diluted	4,763	121	14,222	(235,531)
Adjustment for interest expense on Step Up Convertible Subordinated Debentures	435		1,411	
Income (loss) attributable to common stockholders - diluted	\$ 5,198	\$ 121	\$ 15,633	\$ (235,531)
Weighted average common shares outstanding - basic	142,143	113,843	124,100	111,866
In-the-money options exercisable under stock option compensation plans	24		14	
5% Exchangeable Senior Notes	46,936	46,936	46,936	
Step Up Convertible Subordinate Debentures	18,939		21,362	

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

Weighted average common shares outstanding diluted	208,042	160,779	192,412	111,866
Basic income (loss) per common share:				
Income from continuing operations	\$ 0.03	\$ (0.00)	\$ 0.06	\$ (2.19)
Income from discontinued operations	0.00	0.00	0.00	0.01
Gain from sale of discontinued operations	0.00		0.05	0.07
Net income (loss)	\$ 0.03	\$ 0.00	\$ 0.11	\$ (2.11)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	\$ 0.02	\$ (0.00)	\$ 0.05	\$ (2.19)
Income from discontinued operations	0.00	0.00	0.00	0.01
Gain from sale of discontinued operations	0.00		0.03	0.07
Net income (loss)	\$ 0.02	\$ 0.00	\$ 0.08	\$ (2.11)

Table of Contents

12. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Consolidating Financial Statements for PTHI Debt Issuances

PTHI's 2004 Senior Notes and 5% Exchangeable Senior Notes are fully and unconditionally guaranteed by PTGI on a senior basis as of September 30, 2007. PTGI has a 100% ownership in PTHI and no direct subsidiaries other than PTHI. Accordingly, the following consolidating condensed financial information as of September 30, 2007 and December 31, 2006 and for three months and nine months ended September 30, 2007 and September 30, 2006 are included for (a) PTGI on a stand-alone basis; (b) PTHI on a stand-alone basis; (c) PTGI's indirect non-guarantor subsidiaries on a combined basis; and (d) PTGI on a consolidated basis.

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.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended September 30, 2007				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	\$	\$	\$ 225,283	\$	\$ 225,283
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			136,464		136,464
Selling, general and administrative	1,326	1,747	69,698		72,771
Depreciation and amortization			7,328		7,328
Total operating expenses	1,326	1,747	213,490		216,563
INCOME (LOSS) FROM OPERATIONS	(1,326)	(1,747)	11,793		8,720
INTEREST EXPENSE	(2,304)	(8,026)	(5,480)		(15,810)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(360)		323		(37)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT					
	42	(104)	426		364
INTEREST AND OTHER INCOME	26		1,115		1,141
FOREIGN CURRENCY TRANSACTION GAIN	965	278	10,989		12,232
INTERCOMPANY INTEREST	507	(668)	161		
MANAGEMENT FEE		1,400	(1,400)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(2,450)	(8,867)	17,927		6,610
INCOME TAX BENEFIT (EXPENSE)	(2,763)	(226)	828		(2,161)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(5,213)	(9,093)	18,755		4,449
EQUITY IN NET INCOME OF SUBSIDIARIES	9,976	19,069		(29,045)	
INCOME FROM CONTINUING OPERATIONS	4,763	9,976	18,755	(29,045)	4,449
INCOME FROM DISCONTINUED OPERATIONS, net of tax			140		140
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax			174		174
NET INCOME	\$ 4,763	\$ 9,976	\$ 19,069	\$ (29,045)	\$ 4,763

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Nine Months Ended September 30, 2007				Consolidated
	PTGI	PTHI	Other	Eliminations	
NET REVENUE	\$	\$	\$ 679,660	\$	\$ 679,660
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			423,338		423,338
Selling, general and administrative	3,824	8,403	197,756		209,983
Depreciation and amortization			21,228		21,228
Loss on sale or disposal of assets			684		684
Total operating expenses	3,824	8,403	643,006		655,233
INCOME (LOSS) FROM OPERATIONS	(3,824)	(8,403)	36,654		24,427
INTEREST EXPENSE	(8,107)	(23,825)	(13,736)		(45,668)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(1,151)		740		(411)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(2,269)	(108)	(5,533)		(7,910)
INTEREST AND OTHER INCOME	360		3,335		3,695
FOREIGN CURRENCY TRANSACTION GAIN	4,813	733	24,741		30,287
INTERCOMPANY INTEREST	1,467	(3,070)	1,603		
MANAGEMENT FEE		4,657	(4,657)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(8,711)	(30,016)	43,147		4,420
INCOME TAX BENEFIT (EXPENSE)	(291)	(447)	4,263		3,525
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(9,002)	(30,463)	47,410		7,945
EQUITY IN NET INCOME OF SUBSIDIARIES	23,224	53,687		(76,911)	
INCOME FROM CONTINUING OPERATIONS	14,222	23,224	47,410	(76,911)	7,945
INCOME FROM DISCONTINUED OPERATIONS, net of tax			145		145
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax			6,132		6,132
NET INCOME	\$ 14,222	\$ 23,224	\$ 53,687	\$ (76,911)	\$ 14,222

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended September 30, 2006				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	\$	\$	\$ 245,319	\$	\$ 245,319
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			157,676		157,676
Selling, general and administrative	1,833	1,509	68,297		71,639
Depreciation and amortization			6,976		6,976
Loss on sale or disposal of assets			(205)		(205)
Total operating expenses	1,833	1,509	232,744		236,086
INCOME (LOSS) FROM OPERATIONS	(1,833)	(1,509)	12,575		9,233
INTEREST EXPENSE	(4,065)	(7,847)	(1,276)		(13,188)
ACCRETION ON DEBT DISCOUNT	222				222
INTEREST AND OTHER INCOME	40		805		845
FOREIGN CURRENCY TRANSACTION GAIN	1,605	1,932	358		3,895
INTERCOMPANY INTEREST		324	(324)		
MANAGEMENT FEE		1,652	(1,652)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY					
IN NET INCOME OF SUBSIDIARIES	(4,031)	(5,448)	10,486		1,007
INCOME TAX EXPENSE	(101)		(1,118)		(1,219)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF					
SUBSIDIARIES	(4,132)	(5,448)	9,368		(212)
EQUITY IN NET INCOME OF SUBSIDIARIES	4,253	9,701		(13,954)	
INCOME FROM CONTINUING OPERATIONS	121	4,253	9,368	(13,954)	(212)
INCOME FROM DISCONTINUED OPERATIONS, net of tax			333		333
NET INCOME	\$ 121	\$ 4,253	\$ 9,701	\$ (13,954)	\$ 121

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Nine Months Ended September 30, 2006				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	\$	\$	\$ 763,024	\$	\$ 763,024
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			503,356		503,356
Selling, general and administrative	5,260	4,501	209,269		219,030
Depreciation and amortization			41,044		41,044
Gain on sale or disposal of assets			14,302		14,302
Asset impairment write-down			209,248		209,248
Total operating expenses	5,260	4,501	977,219		986,980
LOSS FROM OPERATIONS	(5,260)	(4,501)	(214,195)		(223,956)
INTEREST EXPENSE	(13,205)	(23,218)	(4,235)		(40,658)
ACCRETION ON DEBT DISCOUNT	(1,344)				(1,344)
CHANGE IN FAIR VALUE OF DERIVATIVES EMBEDDED WITHIN CONVERTIBLE DEBT	5,373				5,373
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	10,374	(2,850)	(115)		7,409
INTEREST AND OTHER INCOME	104		3,301		3,405
FOREIGN CURRENCY TRANSACTION GAIN	4,128	2,101	2,291		8,520
INTERCOMPANY INTEREST		972	(972)		
MANAGEMENT FEE		5,116	(5,116)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET LOSS OF SUBSIDIARIES	170	(22,380)	(219,041)		(241,251)
LOSS OF SUBSIDIARIES	(309)	(93)	(3,295)		(3,697)
LOSS BEFORE EQUITY IN NET LOSS OF SUBSIDIARIES	(139)	(22,473)	(222,336)		(244,948)
EQUITY IN NET LOSS OF SUBSIDIARIES	(235,392)	(212,919)		448,311	
LOSS FROM CONTINUING OPERATIONS	(235,531)	(235,392)	(222,336)	448,311	(244,948)
INCOME FROM DISCONTINUED OPERATIONS, net of tax			2,002		2,002
GAIN ON SALE OF DISCONTINUED OPERATIONS, net of tax			7,415		7,415
NET LOSS	\$ (235,531)	\$ (235,392)	\$ (212,919)	\$ 448,311	\$ (235,531)

Table of Contents**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATING CONDENSED BALANCE SHEET**

(in thousands)

	September 30, 2007				
	PTGI	PTHI	Other	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 2,110	\$ (11)	\$ 106,625	\$	\$ 108,724
Accounts receivable			120,108		120,108
Prepaid expenses and other current assets	665		22,819		23,484
Total current assets	2,775	(11)	249,552		252,316
INTERCOMPANY RECEIVABLES		1,070,195		(1,070,195)	
INVESTMENTS IN SUBSIDIARIES	(40)	(672,720)		672,760	
RESTRICTED CASH			9,689		9,689
PROPERTY AND EQUIPMENT Net			137,677		137,677
GOODWILL			39,552		39,552
OTHER INTANGIBLE ASSETS Net			1,801		1,801
OTHER ASSETS	2,651	7,807	20,038		30,496
TOTAL ASSETS	\$ 5,386	\$ 405,271	\$ 458,309	\$ (397,435)	\$ 471,531
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	\$ 1,427	\$ 613	77,057	\$	\$ 79,097
Accrued interconnection costs			42,922		42,922
Deferred revenue			16,990		16,990
Accrued expenses and other current liabilities	1,340	1,374	51,964		54,678
Accrued income taxes	242	2,020	20,537		22,799
Accrued interest	2,304	4,033	5,246		11,583
Current portion of long-term obligations		3,816	9,821		13,637
Total current liabilities	5,313	11,856	224,537		241,706
INTERCOMPANY PAYABLES	322,812		747,383	(1,070,195)	
LONG-TERM OBLIGATIONS (net of premium of \$2,490)	123,723	393,455	159,058		676,236
OTHER LIABILITIES			51		51
Total liabilities	451,848	405,311	1,131,029	(1,070,195)	917,993
COMMITMENTS AND CONTINGENCIES					
STOCKHOLDERS EQUITY (DEFICIT):					
Common stock	1,426				1,426
Additional paid-in capital	718,634	1,161,930	305,844	(1,467,774)	718,634
Accumulated deficit	(1,074,622)	(1,070,871)	(896,170)	1,967,041	(1,074,622)
Accumulated other comprehensive loss	(91,900)	(91,099)	(82,394)	173,493	(91,900)
Total stockholders equity (deficit)	(446,462)	(40)	(672,720)	672,760	(446,462)

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

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	\$ 5,386	\$ 405,271	\$ 458,309	\$ (397,435)	\$ 471,531
--	----------	------------	------------	--------------	------------

Table of Contents**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATING CONDENSED BALANCE SHEET**

(in thousands)

	PTGI	PTHI	December 31, 2006 Other	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 3,764	\$ (28)	\$ 60,581	\$	\$ 64,317
Accounts receivable			118,012		118,012
Prepaid expenses and other current assets	789		23,489		24,278
Total current assets	4,553	(28)	202,082		206,607
INTERCOMPANY RECEIVABLES	51,736	1,105,874		(1,157,610)	
INVESTMENTS IN SUBSIDIARIES	(4,854)	(707,997)		712,851	
RESTRICTED CASH			8,415		8,415
PROPERTY AND EQUIPMENT Net			111,682		111,682
GOODWILL			34,893		34,893
OTHER INTANGIBLE ASSETS Net			2,762		2,762
OTHER ASSETS	3,717	7,992	16,182		27,891
TOTAL ASSETS	\$ 55,152	\$ 405,841	\$ 376,016	\$ (444,759)	\$ 392,250
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	\$ 838	\$ 301	69,447	\$	\$ 70,586
Accrued interconnection costs			48,942		48,942
Deferred revenue			18,315		18,315
Accrued expenses and other current liabilities	1,111	2,070	43,803		46,984
Accrued income taxes	1,460	150	16,311		17,921
Accrued interest	4,169	8,766	692		13,627
Current portion of long-term obligations	22,702	3,816	10,479		36,997
Total current liabilities	30,280	15,103	207,989		253,372
INTERCOMPANY PAYABLES	322,190		835,420	(1,157,610)	
LONG-TERM OBLIGATIONS (net of discount of \$5,354)	170,937	395,592	40,548		607,077
OTHER LIABILITIES			56		56
Total liabilities	523,407	410,695	1,084,013	(1,157,610)	860,505
COMMITMENTS AND CONTINGENCIES					
STOCKHOLDERS EQUITY (DEFICIT):					
Common stock	1,138				1,138
Additional paid-in capital	692,941	1,161,930	305,844	(1,467,774)	692,941
Accumulated deficit	(1,082,853)	(1,088,104)	(943,866)	2,031,970	(1,082,853)
Accumulated other comprehensive loss	(79,481)	(78,680)	(69,975)	148,655	(79,481)
Total stockholders equity (deficit)	(468,255)	(4,854)	(707,997)	712,851	(468,255)

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

TOTAL LIABILITIES AND STOCKHOLDERS

EQUITY (DEFICIT)	\$ 55,152	\$ 405,841	\$ 376,016	\$ (444,759)	\$ 392,250
------------------	-----------	------------	------------	--------------	------------

Table of Contents**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

(in thousands)

	For Nine Months Ended September 30, 2007				
	PTGI	PTHI	Other	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	\$ 14,222	\$ 23,224	\$ 53,687	\$ (76,911)	\$ 14,222
Adjustments to reconcile net income to net cash provided by operating activities:					
Provision for doubtful accounts receivable			7,358		7,358
Stock compensation expense		184			184
Depreciation and amortization			21,288		21,288
Gain on sale or disposal of assets			(5,447)		(5,447)
Accretion of debt (premium) discount	1,151		(740)		411
Equity in net gain of subsidiary	(23,224)	(53,687)		76,911	
Deferred income taxes		(860)			(860)
Loss on early extinguishment or restructuring of debt	2,269	108	5,533		7,910
Unrealized foreign currency transaction gain on intercompany and foreign debt	(8,417)	(2,552)	(21,660)		(32,629)
Changes in assets and liabilities, net of acquisitions:					
Decrease in accounts receivable			293		293
Decrease in prepaid expenses and other current assets	123		2,475		2,598
(Increase) decrease in other assets	680	1,045	(412)		1,313
(Increase) decrease in intercompany balance	52,724	37,939	(90,663)		
Increase in accounts payable	589	312	1,928		2,829
Decrease in accrued interconnection costs			(8,245)		(8,245)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, accrued income taxes and other liabilities	(1,019)	1,174	(1,172)		(1,017)
Increase (decrease) in accrued interest	(1,865)	(4,733)	4,555		(2,043)
Net cash provided by (used in) operating activities	37,233	2,154	(31,222)		8,165
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment			(29,717)		(29,717)
Cash from disposition of business, net of cash disposed			6,140		6,140
Cash used for business acquisitions, net of cash acquired			(200)		(200)
Decrease in restricted cash			(340)		(340)
Net cash used in investing activities			(24,117)		(24,117)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of long-term obligations			109,275		109,275
Deferred financing costs			(6,570)		(6,570)
Principal payments on long-term obligations	(58,057)	(2,137)	(4,673)		(64,867)
Proceeds from sale of common stock	19,170				19,170
Net cash provided by (used in) financing activities	(38,887)	(2,137)	98,032		57,008
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS					
			3,351		3,351
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,654)	17	46,044		44,407
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,764	(28)	60,581		64,317
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,110	\$ (11)	\$ 106,625	\$	\$ 108,724

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For Nine Months Ended September 30, 2006				
	PTGI	PTHI	Other	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net loss	\$ (235,531)	\$ (235,392)	\$ (212,919)	\$ 448,311	\$ (235,531)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Provision for doubtful accounts receivable			11,156		11,156
Stock compensation expense		481			481
Depreciation and amortization			41,746		41,746
(Gain) loss on sale or disposal of assets			6,911		6,911
Asset impairment write-down			209,248		209,248
Accretion of debt discount	1,344				1,344
Equity in net loss of subsidiary	235,392	212,919		(448,311)	
Change in estimated fair value of embedded derivatives	(5,373)				(5,373)
(Gain) loss on early extinguishment or restructuring of debt	(10,374)	2,850	115		(7,409)
Other			(1,595)		(1,595)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(4,034)	(2,723)	(2,919)		(9,676)
Changes in assets and liabilities, net of acquisitions:					
Decrease in accounts receivable			15,638		15,638
(Increase) decrease in prepaid expenses and other current assets	1,083	(7,966)	14,121		7,238
(Increase) decrease in other assets	587	10,276	(10,772)		91
(Increase) decrease in intercompany balance	16,901	2,977	(19,878)		
Decrease in accounts payable	(1,722)	(24)	(10,790)		(12,536)
Decrease in accrued interconnection costs		(3)	(15,847)		(15,850)
Increase, net, in deferred revenue, accrued expenses, other current liabilities, accrued income taxes and other liabilities	651	4,511	2,173		7,335
Increase (decrease) in accrued interest	451	(4,694)			(4,243)
Net cash provided by (used in) operating activities	(625)	(16,788)	26,388		8,975
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment		6	(23,932)		(23,926)
Cash from disposition of business, net of cash disposed			12,947		12,947
Cash used for business acquisitions, net of cash acquired		457	(681)		(224)
Decrease in restricted cash			1,196		1,196
Net cash provided by (used in) investing activities		463	(10,470)		(10,007)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of long-term obligations		20,501	11,940		32,441
Deferred financing costs		(2,850)			(2,850)
Principal payments on long-term obligations	(2)	(819)	(5,446)		(6,267)
Proceeds from sale of common stock	4,935				4,935
Net cash provided by financing activities	4,933	16,832	6,494		28,259
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS					
		(458)	1,060		602
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,308	49	23,472		27,829
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,255	(82)	41,826		42,999

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

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	5,563	\$	(33)	\$	65,298	\$		\$	70,828
--	----	-------	----	------	----	--------	----	--	----	--------

Table of Contents

Consolidating Financial Statements for IHC Debt Issuance

Primus Telecommunications IHC, Inc. s 14¹/₄% Second Lien Notes are fully, unconditionally, jointly and severally guaranteed by PTGI on a senior basis as of September 30, 2007 and by PTHI, Primus Telecommunications, Inc., TresCom International Inc., Least Cost Routing, Inc., TresCom U.S.A., Inc., iPRIMUS USA, Inc., and iPRIMUS.com, Inc., 100% owned subsidiaries of PTGI (collectively, the Other Guarantors). PTGI has a 100% ownership in PTHI and no direct subsidiaries other than PTHI. Accordingly, the following consolidating condensed financial information as of September 30, 2007 and December 31, 2006 and for three months and nine months ended September 30, 2007 and September 30, 2006 are included for (a) PTGI on a stand-alone basis; (b) Primus Telecommunications IHC, Inc. (IHC) on a stand-alone basis; (c) the Other Guarantor subsidiaries on a combined basis; (d) PTGI s indirect non-guarantor subsidiaries on a combined basis and (e) PTGI on a consolidated basis.

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.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

For the Three Months Ended September 30, 2007

	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	\$	\$	\$ 32,067	\$ 193,216	\$	\$ 225,283
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			22,562	113,902		136,464
Selling, general and administrative	1,326	29	10,129	61,287		72,771
Depreciation and amortization			907	6,421		7,328
Loss on sale or disposal of assets			(8)	8		
Total operating expenses	1,326	29	33,590	181,618		216,563
INCOME (LOSS) FROM OPERATIONS	(1,326)	(29)	(1,523)	11,598		8,720
INTEREST EXPENSE	(2,304)	(3,870)	(8,042)	(1,594)		(15,810)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(360)	323				(37)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	42	(85)	(104)	511		364
INTEREST AND OTHER INCOME	26		14	1,101		1,141
FOREIGN CURRENCY TRANSACTION GAIN	965	3,156	303	7,808		12,232
INTERCOMPANY INTEREST	507	1,602	(668)	(1,441)		
MANAGEMENT FEE			1,564	(1,564)		
ROYALTY FEE		3,612	(139)	(3,473)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(2,450)	4,709	(8,595)	12,946		6,610
INCOME TAX BENEFIT (EXPENSE)	(2,763)	(86)	(275)	963		(2,161)
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(5,213)	4,623	(8,870)	13,909		4,449
EQUITY IN NET INCOME OF SUBSIDIARIES	9,976		19,069		(29,045)	
INCOME FROM CONTINUING OPERATIONS	4,763	4,623	10,199	13,909	(29,045)	4,449
INCOME FROM DISCONTINUED OPERATIONS, net of tax				140		140
GAIN ON SALE OF DISCONTINUED OPERATIONS, net of tax				174		174
NET INCOME	\$ 4,763	\$ 4,623	\$ 10,199	\$ 14,223	\$ (29,045)	\$ 4,763

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Nine Months Ended September 30, 2007					Consolidated
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	
NET REVENUE	\$	\$	\$ 106,063	\$ 573,597	\$	\$ 679,660
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			75,667	347,671		423,338
Selling, general and administrative	3,824	83	33,320	172,756		209,983
Depreciation and amortization			2,803	18,425		21,228
Loss on sale or disposal of assets				684		684
Total operating expenses	3,824	83	111,790	539,536		655,233
INCOME (LOSS) FROM OPERATIONS	(3,824)	(83)	(5,727)	34,061		24,427
INTEREST EXPENSE	(8,107)	(8,598)	(23,847)	(5,116)		(45,668)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(1,151)	740				(411)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(2,269)	(5,135)	(108)	(398)		(7,910)
INTEREST AND OTHER INCOME	360		43	3,292		3,695
FOREIGN CURRENCY TRANSACTION GAIN	4,813	7,642	789	17,043		30,287
INTERCOMPANY INTEREST	1,467	1,416	(3,070)	187		
MANAGEMENT FEE			5,086	(5,086)		
ROYALTY FEE		10,757	(436)	(10,321)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(8,711)	6,739	(27,270)	33,662		4,420
INCOME TAX BENEFIT (EXPENSE)	(291)	(1,109)	(684)	5,609		3,525
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(9,002)	5,630	(27,954)	39,271		7,945
EQUITY IN NET INCOME OF SUBSIDIARIES	23,224		53,687		(76,911)	
INCOME FROM CONTINUING OPERATIONS	14,222	5,630	25,733	39,271	(76,911)	7,945
INCOME FROM DISCONTINUED OPERATIONS, net of tax				145		145
GAIN ON SALE OF DISCONTINUED OPERATIONS, net of tax				6,132		6,132
NET INCOME	\$ 14,222	\$ 5,630	\$ 25,733	\$ 45,548	\$ (76,911)	\$ 14,222

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended September 30, 2006					Consolidated
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	
NET REVENUE	\$	\$	\$ 41,328	\$ 203,991	\$	\$ 245,319
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			30,192	127,484		157,676
Selling, general and administrative	1,833	1	9,894	59,911		71,639
Depreciation and amortization			1,218	5,758		6,976
Loss on sale or disposal of assets			(29)	(176)		(205)
Total operating expenses	1,833	1	41,275	192,977		236,086
INCOME (LOSS) FROM OPERATIONS	(1,833)	(1)	53	11,014		9,233
INTEREST EXPENSE	(4,065)		(7,850)	(1,273)		(13,188)
ACCRETION ON DEBT DISCOUNT	222					