

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K/A

Current report filing [amend]

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FILER

PRIMUS TELECOMMUNICATIONS GROUP INC

CIK: **1006837** | IRS No.: **541708481** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **8-K/A** | Act: **34** | File No.: **000-29092** | Film No.: **98501135**
SIC: **4813** Telephone communications (no radiotelephone)

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2070 CHAIN BRIDGE RD
STE 425
VIENNA VA 22182
7039022800

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event reported): October 20, 1997

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of issuer as specified in charter)

Delaware (State or Other Jurisdiction of Incorporation)	0-29-092 (Commission File Number)	54-1708481 (I.R.S. Employer Identification No.)
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2070 Chain Bridge Road
Suite 425
Vienna, Virginia 22182
(Address of principal executive offices)

(703) 902-2800
(Registrant's telephone number, including area code)

ITEM 7. FINANCIAL STATEMENTS; PRO FORMA
FINANCIAL INFORMATION AND EXHIBITS

(a) (1) Financial Statements of Businesses Acquired.

- (a) Consolidated balance sheets of USFI, Inc. and Subsidiary as of December 31, 1996 and 1995 and the related consolidated statements of operations, stockholders' deficit and cash flows for the years ended December 31, 1996, and 1995.
- (b) Balance sheet of USFI, Inc. as of December 31, 1994 and the related consolidated statements of operations, stockholders' deficit and cash flows for the year ended December 31, 1994.
- (c) Unaudited consolidated balance sheet of USFI, Inc. and Subsidiary as of September 30, 1997 and the related consolidated statements of operations and cash flows for the nine months ended September 30, 1997 and 1996.
- (d) Unaudited balance sheet of Telepassport L.L.C. as of September 30, 1997 and the related statements of operations and cash flows for the nine months ended September 30, 1997.

(b) Pro Forma Financial Information.

- (1) Unaudited pro forma consolidated statement of operations for the nine months ended September 30, 1997.
- (2) Unaudited pro forma consolidated statement of operations for the year ended December 31, 1996.
- (3) Unaudited pro forma balance sheet as of September 30, 1997.

(c) Exhibits

- 2.1 Asset Purchase Agreement by and among USFI, Inc., Primus Telecommunications, Inc., Primus Telecommunications Group, Incorporated and U.S. Cable Corporation, dated as of October 20, 1997. (Previously

filed)

- 2.2 Equity Purchase Agreement by and among Messrs. James D. Pearson, Stephen E. Myers, Michael C. Anderson, Primus Telecommunications International, Inc., and Primus Telecommunications Group, Incorporated dated as of October 20, 1997. (Previously filed)

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PRIMUS TELECOMMUNICATIONS GROUP,
INCORPORATED

Date: January 5, 1998

By: /s/ Neil L. Hazard

Executive Vice President and
Chief Financial Office

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USFI, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 1997
(IN THOUSANDS)

<TABLE>

<S>	<C>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,024
Restricted cash and cash equivalents	-
Short term investments	-
Accounts receivable	7,141
Prepaid expenses and other current assets	690

Total current assets	8,855
PROPERTY AND EQUIPMENT - Net	3,940
INTANGIBLES - Net	82
DEFERRED INCOME TAXES	-
OTHER ASSETS	188

TOTAL ASSETS	\$13,065
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	\$11,862
Accrued expenses and other current liabilities	5,770
Deferred income taxes	
Accrued Interest	
Current portion of long-term obligations	

Total current liabilities	17,632
LONG-TERM OBLIGATIONS	-

Total liabilities	17,632

COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY (DEFICIT):	(4,567)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$13,065
	=====

</TABLE>

USFI, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997 AND 1996
(IN THOUSANDS)

<TABLE>
<CAPTION>

NINE MONTHS ENDED

SEPTEMBER 30,

	1997	1996
<S>	<C>	<C>
NET REVENUE	\$25,231	\$27,764
COST OF REVENUE	19,508	22,475
GROSS MARGIN	5,723	5,289
OPERATING EXPENSES:		
Selling, general and administrative	10,434	8,677
Depreciation and amortization	629	502
Total operating Expenses	11,063	9,179
LOSS FROM OPERATIONS	(5,340)	(3,890)
INTEREST EXPENSE	-	-
INTEREST INCOME	-	-
OTHER INCOME (EXPENSE)	23	(12)
LOSS BEFORE INCOME TAXES	(5,317)	(3,902)
INCOME TAXES	-	-
NET LOSS	\$ (5,317)	\$ (3,902)

</TABLE>

USFI, INC. AND SUBSIDIARY
 UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997 AND 1996
 (IN THOUSANDS)

<TABLE>
 <CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net loss	\$ (5,317)	\$ (3,902)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	626	502
Provisions for losses on receivables	96	320
Changes in Operating assets and liabilities:		
Increase in accounts receivable from customers and affiliates	(914)	(2,601)
Increase in other current assets	(578)	(276)
Increase in deposits	(27)	(15)
Increase in accounts payable and accrued expenses	589	3,872
(Decrease) increase in reseller deposits and deferred revenue	(173)	62
(Decrease) increase in due to affiliates	(1,412)	723
Net cash used in operating activities	(7,110)	(1,315)
INVESTING ACTIVITIES		
Purchase of equipment	(1,863)	(2,052)
Decrease in deferred costs	5	81
Net cash used in investing activities	(1,858)	(1,971)
FINANCING ACTIVITIES		
Capital contributions	4,918	3,025
Advances from affiliates	4,193	-
Repayment of capital lease obligation	-	(3)
Net cash provided by financing activities	9,111	3,022
Effect of exchange rate changes on cash	(3)	3
Increase (decrease) in cash	140	(261)
Cash at beginning of period	884	420
Cash at end of period	\$ 1,024	\$ 159

</TABLE>

TELEPASSPORT L.L.C.
 UNAUDITED BALANCE SHEET
 AS OF SEPTEMBER 30, 1997
 (in thousands)

<TABLE>	
<CAPTION>	
<S>	<C>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 163
Restricted cash and cash equivalents	-
Short term investments	-
Accounts receivable	627
Prepaid expenses and other current assets	255

Total current assets	1,044
PROPERTY AND EQUIPMENT - Net	663
INTANGIBLES - Net	157
DEFERRED INCOME TAXES	-
OTHER ASSETS	214

TOTAL ASSETS	\$2,078
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	\$ 375
Accrued expenses and other current liabilities	332
Deferred income taxes	
Accrued Interest	
Current portion of long-term obligations	

Total current liabilities	707
LONG-TERM OBLIGATIONS	841

Total liabilities	1,548

COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY (DEFICIT):	530

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,078
	=====
</TABLE>	

TELEPASSPORT L.L.C.
 UNAUDITED STATEMENT OF OPERATIONS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
 (IN THOUSANDS)

<TABLE>	
<S>	<C>
NET REVENUE	\$2,900
COST OF REVENUE	2,523

GROSS MARGIN	377
OPERATING EXPENSES:	
Selling, general, and administrative	1,296
Depreciation and amortization	69

Total operating Expenses	1,365

LOSS FROM OPERATIONS	(988)
INTEREST EXPENSE	(17)
INTEREST INCOME	-
OTHER INCOME (EXPENSE)	151

LOSS BEFORE INCOME TAXES	(854)
INCOME TAXES	-

NET LOSS	\$ (854)
	=====
</TABLE>	

TELEPASSPORT L.L.C.
 UNAUDITED STATEMENT OF CASH FLOWS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
 (IN THOUSANDS)

<TABLE>	
<S>	<C>

OPERATING ACTIVITIES	
Net loss	\$ (854)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	69
Changes in Operating assets and liabilities	(545)

Net cash used in operating activities	(1,330)
INVESTING ACTIVITIES	
Purchase of equipment	(732)

Net cash used in investing activities	(732)
FINANCING ACTIVITIES	
Capital contributions	1,384
Advances from affiliates	841

Net cash provided by financing activities	2,225
Effect of exchange rate changes on cash	-

Increase (decrease) in cash	163
Cash at beginning of period	-

Cash at end of period	\$ 163
	=====

</TABLE>

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	Primus Telecommunications Group, Incorporated	USFI, Inc.	Telepassport L.L.C.	Pro Forma	
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
NET REVENUE	\$202,099	\$25,231	\$2,900		\$230,230
COST OF REVENUE	184,478	19,508	2,523		206,509
	-----	-----	-----	-----	-----
GROSS MARGIN	17,621	5,723	377	-	23,721
OPERATING EXPENSES:					
Selling, general, and administrative	35,784	10,434	1,296		47,514
Depreciation and amortization	4,343	629	69	319 (1)	5,360
	-----	-----	-----		-----
Total Operating Expenses	40,127	11,063	1,365	319	52,874
	-----	-----	-----	-----	-----
LOSS FROM OPERATIONS	(22,506)	(5,340)	(988)	(319)	(29,153)
INTEREST EXPENSE	(5,570)	-	(17)		(5,587)
INTEREST INCOME	3,377	-	-		3,377
OTHER INCOME (EXPENSE)	407	23	151		581
	-----	-----	-----	-----	-----
LOSS BEFORE INCOME TAXES	(24,292)	(5,317)	(854)	(319)	(30,782)
INCOME TAXES	81	-	-	(2)	81
	-----	-----	-----	-----	-----
NET LOSS	\$ (24,373)	\$ (5,317)	\$ (854)	\$ (319)	\$ (30,863)
	=====	=====	=====	=====	=====
NET LOSS PER COMMON AND COMMON SHARE EQUIVALENTS	\$ (1.37)				\$ (1.74)
	=====				=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARE EQUIVALENTS OUTSTANDING	17,780				17,780
	=====				=====

</TABLE>

The adjustments to the pro forma consolidated statement of operations for the nine months ended September 30, 1997 are as follows:

- (1) To record amortization expense associated with acquired customer list and the excess of purchase price over the fair value of net assets acquired.
- (2) The pro forma adjustment to the income tax provision is zero as a valuation reserve was applied in full to the tax benefit associated with the pro forma net loss before income taxes.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED DECEMBER 31, 1996
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	Primus	Axicorp	USFI	Pro Forma	
	Telecommunications Group, Incorporated	Pty., Ltd. (1)	Inc.	Adjustments	Combined
<S>	<C>	<C>	<C>	<C>	<C>
NET REVENUE	\$ 172,972	\$ 26,388	\$ 38,550		\$ 235,890
COST OF REVENUE	158,845	23,756	30,205		212,806
GROSS MARGIN	14,127	2,612	6,345	-	23,084
OPERATING EXPENSES:					
Selling, general, and administrative	20,114	2,054	12,524		34,722
Depreciation and amortization	2,164	48	679	677 (2)	3,568
Total operating Expenses	22,278	2,132	13,203	677	38,290
LOSS FROM OPERATIONS	(8,151)	480	(8,858)	(677)	(15,206)
INTEREST EXPENSE	(857)	-		(138) (3)	(996)
INTEREST INCOME	785	124			909
OTHER INCOME (EXPENSE)	(345)	-	17	(4)	(328)
LOSS BEFORE INCOME TAXES	(8,568)	604	(8,841)	(815)	(15,620)
INCOME TAXES	196	281	-		477
NET LOSS	\$ (8,754)	\$ 323	\$ (8,841)	\$ (815)	\$ (16,097)
NET LOSS PER COMMON AND COMMON SHARE EQUIVALENTS	\$ (0.63)				\$ (1.15)
WEIGHTED AVERAGE NUMBER OF COMMON SHARE EQUIVALENTS					
EQUIVALENTS OUTSTANDING	13,869				13,963

</TABLE>

The adjustments to the pro forma consolidated statement of operations for the year ended December 31, 1996 are as follows:

- (1) Represents the historical results of operations of Axicorp Pty., Ltd. For the months of January and February 1996 prior to the Company's acquisition on March 1, 1996.
- (2) To record amortization expense associated with acquired customer list and the excess of purchase price over the fair value of net assets acquired.
- (3) To record incremented interest expense related to the issuance of notes payable for the acquisition of Axicorp Pty., Ltd.
- (4) The pro forma adjustment to the income tax provision is zero as a valuation reserve was applied in full to the tax benefit associated with the pro forma net loss before income taxes.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
 UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
 AS OF SEPTEMBER 30, 1997
 (IN THOUSANDS)

<TABLE>
<CAPTION>

	Primus	USFI,	Telepassport	Pro Forma	
	Telecommunications Group, Incorporated	Inc.	L.L.C.	Adjustments	Combined
<S>	<C>	<C>	<C>	<C>	<C>
ASSETS					
CURRENTS ASSETS					
Cash and cash equivalents	\$150,187	\$ 1,024	\$ 163	\$ (12,524) (1)	\$138,850
Restricted cash and cash equivalents	72,521	-	-		72,521
Short term investments	-	-	-		-
Accounts receivable	58,974	7,141	627	(7,141) (2)	59,601
Prepaid expenses and other current assets	2,299	690	255		3,244
Total current Assets	283,981	8,855	1,044	(19,665)	274,215
PROPERTY AND EQUIPMENT - Net	48,375	3,940	663	(815) (3)	52,163
INTANGIBLES - Net	24,259	82	157	8,011 (4)	32,509
DEFERRED INCOME TAXES	4,521	-	-		4,521
OTHER ASSETS	10,874	188	214		11,276
TOTAL ASSETS	\$372,010	\$13,065	\$2,078	\$ (12,469)	\$374,684

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 75,035	\$11,862	\$ 375	\$ (11,862) (5)	\$75,410
Accrued expenses and other current liabilities	8,447	5,770	332	(3,803) (6)	10,746
Deferred income taxes	4,406				4,406
Accrued Interest	4,949				4,949
Current portion of long-term obligations	1,114				1,114
	-----	-----	-----	-----	-----
Total liabilities	93,951	17,632	707	(15,665)	96,625
LONG-TERM OBLIGATIONS	224,063	-	841	(841) (7)	224,063
	-----	-----	-----	-----	-----
Total liabilities	318,014	17,632	1,548	(16,506)	320,688
	-----	-----	-----	-----	-----

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY (DEFICIT)	53,996	(4,567)	530	4,037 (8)	53,996
	-----	-----	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$372,010	\$13,065	\$2,078	\$ (12,469)	\$374,684
	=====	=====	=====	=====	=====

</TABLE>

The adjustments to the pro forma consolidated balance sheet as of September 30, 1997 are as follows:

- (1) Reflects the payment of purchase price of \$11.5 million and the elimination of USFI, Inc. cash balances which were not purchased.
- (2) Reflects the elimination of USFI, Inc.'s accounts receivable which were not purchased.
- (3) To adjust the property and equipment - net to the fair market value.
- (4) To record \$8.25 million of value of customer list and excess of purchase price over fair value of net assets acquired and to eliminate \$0.239 million of previously reflected intangible deemed worthless.
- (5) Reflects the elimination of USFI, Inc.'s accounts payable which were not purchased.
- (6) Reflects the elimination of selected USFI, Inc.'s accrued expenses which were not purchased.
- (7) To eliminate Telepassport L.L.C. debt which was not purchased.
- (8) To eliminate the equity of the purchased entities.

[LETTERHEAD OF ERNST & YOUNG LLP]

Report of Independent Auditors

Board of Directors and Stockholders
USFI, Inc.

We have audited the accompanying consolidated balance sheets of USFI, Inc. and subsidiary as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of USFI, Inc. and subsidiary at December 31, 1996 and 1995, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that USFI, Inc. will continue as a going concern. As more fully described in Note 2, the Company has incurred recurring operating losses and has a working capital deficiency and a deficit in stockholders' equity. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The

financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

September 30, 1997

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USFI, Inc. and Subsidiary
Consolidated Balance Sheets
(In thousands, except share information)

	DECEMBER 31	
	1996	1995
	-----	-----
<TABLE>		
<CAPTION>		
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash	\$ 884	\$ 420
Accounts receivable:		
Customers, less allowance of \$790 in 1996 and \$683 in 1995	4,620	3,852
Affiliates	1,703	304
Prepaid expenses and other current assets	112	75
	-----	-----
Total current assets	7,319	4,651
Property and equipment, net (Note 4)	2,702	1,974
Deferred costs, net of accumulated amortization of \$22 in 1996 and \$4 in 1995	88	77
Goodwill, net of accumulated amortization of \$5 in 1995		122
Deposits	161	123
	-----	-----
Total assets	\$10,270	\$ 6,947
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$10,885	\$ 4,624
Accrued liabilities and other current liabilities	1,828	1,844
Reseller deposits and deferred revenue	310	263
Capital lease obligations		3
Due to affiliates (Note 7)	1,412	1,523
	-----	-----
Total current liabilities	14,435	8,257
Commitments and contingencies (Note 5)		
Stockholders' deficit:		
Common stock, no par value, authorized 5,000 shares in 1996 and 2,500 shares in 1995; issued and outstanding 536 shares in 1996 and 100 shares in 1995		
Additional paid-in capital	9,126	5,126
Accumulated deficit	(13,275)	(6,434)
Foreign currency translation adjustment	(16)	(2)
	-----	-----
Total stockholders' deficit	(4,165)	(1,310)
	-----	-----
Total liabilities and stockholders' deficit	\$10,270	\$ 6,947
	=====	=====

</TABLE>

See accompanying notes.

2

USFI, Inc. and Subsidiary
Consolidated Statements of Operations
(In thousands)

	YEAR ENDED	
	DECEMBER 31	
	1996	1995
	-----	-----
<TABLE>		
<CAPTION>		
<S>	<C>	<C>
Telecommunications revenue	\$36,550	\$27,643

Costs and expenses:		
Costs of telecommunications services (Note 6)	30,205	19,901
Selling, general and administrative	12,524	7,917
Depreciation and amortization (Note 3)	679	379
	-----	-----
Total costs and expenses	43,408	28,197
	-----	-----
Loss from operations	(6,858)	(554)
Other income	17	19
	-----	-----
Loss before minority interest	(6,841)	(535)
Minority interest		19
	-----	-----
Net loss	\$ (6,841)	\$ (516)
	=====	=====

</TABLE>

See accompanying notes.

3

USFI, Inc. and Subsidiary

Consolidated Statements of Stockholders' Deficit
(In thousands)

Years ended December 31, 1996 and 1995

<TABLE>
<CAPTION>

	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	TOTAL
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Balance at January 1, 1995	\$4,325	\$ (5,918)		\$ (1,593)
Capital contributions	801			801
Net loss for 1995		(516)		(516)
Foreign currency translation			\$ (2)	(2)
	-----	-----	-----	-----
Balance at December 31, 1995	5,126	(6,434)	(2)	(1,310)
Capital contributions	4,000			4,000
Net loss for 1996		(6,841)		(6,841)
Foreign currency translation			(14)	(14)
	-----	-----	-----	-----
Balance at December 31, 1996	\$9,126	\$ (13,275)	\$ (16)	\$ (4,165)
	=====	=====	=====	=====

</TABLE>

See accompanying notes.

USFI, Inc. and Subsidiary

Consolidated Statements of Cash Flows
(In thousands)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31	
	1996	1995
	-----	-----
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net loss	\$ (6,841)	\$ (516)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	679	379
Write-off of goodwill	113	
Provisions for losses on receivables	352	184
Minority interest		(19)
Changes in operating assets and liabilities:		
Increase in accounts receivable from customers and affiliates	(2,519)	(2,788)
(Increase) decrease in other current assets	(37)	28
Increase in deposits	(38)	(76)
Increase in accounts payable and accrued expenses	6,245	2,471
Increase (decrease) in reseller deposits and deferred revenue	47	(6)
Increase in due to affiliates	1,147	201

Net cash used in operating activities	(852)	(142)
INVESTING ACTIVITIES		
Purchase of interest in Mastercall (net of cash acquired)		(70)
Purchase of equipment	(1,380)	(1,654)
Increase in deferred costs	(29)	(67)
Net cash used in investing activities	(1,409)	(1,791)
FINANCING ACTIVITIES		
Capital contributions	2,742	801
Advances from affiliates		1,258
Repayment of capital lease obligation	(3)	(22)
Net cash provided by financing activities	2,739	2,037
Effect of exchange rate changes on cash	(14)	(2)
Increase in cash	464	102
Cash at beginning of year	420	318
Cash at end of year	\$ 884	\$ 420

</TABLE>

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See accompanying notes.

USFI, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 1996

1. ORGANIZATION AND NATURE OF BUSINESS

USFI, Inc. (the "Company") which was incorporated in New York on February 12, 1993, provides least cost routing for international long distance telecommunication services, which primarily originate and terminate outside of the United States. Substantially, all billings for service are denominated in U.S. currency.

Customers are principally located in Western Europe, Japan and South Africa. No individual customer represents a significant percentage of revenues, however, the Company utilizes outside agents to sell its services in certain geographic areas, with agents in Germany and South Africa representing customers with revenues aggregating 18% and 15%, and 13% and 10%, respectively, of total 1996 and 1995 revenues. The Company performs a credit evaluation of all new customers and requires certain customers to provide collateral in the form of a cash deposit or letter of credit. At December 31, 1996 and 1995, the Company had letters of credit issued on its behalf from customers in the amount of approximately \$327,000 and \$525,000, respectively.

On May 15, 1995 the Company acquired a 51% interest in Mastercall, Ltd. ("Mastercall"), a joint venture that resells the Company's international telecommunications services in the United Kingdom, for a purchase price of approximately \$148,000. The acquisition was accounted for using the purchase method of accounting and the results of operations have been included in the financial statements of the Company from the date of acquisition.

2. BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred losses since inception and has a working capital deficiency and a deficit in stockholders' equity as of December 31, 1996. All of these matters raise substantial doubt about the Company's ability to continue as a going concern. The Company plans on selling its assets and ceasing its operations (see Note 10) and, on September 11, 1997, the Company entered into a letter of intent to sell all of its assets, except for cash and accounts and notes receivable. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts or classifications of liabilities that may result from the outcome of this uncertainty.

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USFI, Inc. and Subsidiary

2. BASIS OF PRESENTATION (CONTINUED)

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

DEPRECIATION

Furniture and equipment are recorded at cost and are depreciated over the estimated useful lives of three to five years, utilizing the straight-line method. Assets acquired pursuant to capital lease arrangements and leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the terms of the leases. Depreciation expense for the years ended December 31, 1996 and 1995 was \$652,000 and \$371,000, respectively.

DEFERRED COSTS AND GOODWILL

Deferred costs include costs to obtain trademarks and certain organizational costs. Goodwill includes approximately \$127,000 relating to the 1995 acquisition of Mastercall (see Note 1). Such deferred costs are amortized on the straight-line basis generally as follows:

<TABLE>

<CAPTION>

ASSET -----	PERIOD OF AMORTIZATION -----
<S>	<C>
Trademarks	5 years
Organization costs	5 years
Goodwill	15 years

</TABLE>

The carrying amount of goodwill is reviewed if facts and circumstances suggest that it may be impaired. Due to recurring losses of Mastercall, the Company evaluated the ongoing value of goodwill, as determined based on the estimated undiscounted cash flows of the entity over the remaining amortization period and determined that goodwill with a carrying value of \$113,000 is impaired. As a result, the Company has recorded a charge in 1996 to write-off the full amount of goodwill associated with Mastercall, which is included in selling, general and administrative expenses.

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USFI, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

The Company recognizes revenue from services and the related costs at the time the services are rendered.

INCOME TAX

Income taxes are accounted for under the liability method in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and Mastercall. All significant intercompany accounts and transactions have been eliminated.

BASIS OF PRESENTATION

Certain amounts in the 1995 financial statements have been reclassified to conform with the 1996 presentation.

4. PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following at December 31, 1996 and 1995:

<TABLE>
<CAPTION>

	1996	1995

	(in thousands)	
<S>	<C>	<C>
Furniture and equipment	\$1,131	\$ 892
Switching equipment	2,888	1,717
Leasehold improvements	60	89

	4,079	2,698
Less accumulated depreciation and amortization	1,377	724

	\$2,702	\$1,974
	=====	

</TABLE>

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USFI, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

5. COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases office and switch site space under noncancellable operating leases. The future minimum annual rental commitments under leases having terms in excess of one year are as follows:

<S>	<C>
1997	\$346,000
1998	399,000
1999	399,000
2000	213,000
2001	116,000

</TABLE>

Rent expense for the years ended December 31, 1996 and 1995 was \$284,000 and \$256,000, respectively.

LITIGATION

During 1994, the Company was involved in a contract dispute which was presented to an arbitrator and, in August 1995, an award in the amount of \$333,450 representing damages and administrative fees and costs was determined to be payable by the Company. The award amount was recorded as an expense in 1994 and was paid in 1996.

The Company is involved in litigation in the normal course of business. In the opinion of management, such litigation will not have a material effect on the Company's cash flows, financial condition or results of operations.

INCENTIVE PLANS

The Company maintains incentive plans which entitle certain key employees to participate in certain distributions, if any, by the Company of cash or property to two of the Company's principal stockholders. Participation commences when the amount of distributions paid exceeds certain stipulated amounts. No such distributions have been made or are expected.

6. MAJOR SUPPLIERS

During 1996 and 1995, MCI, World Com, Inc. (formerly IDB) and Cable and Wireless International, Inc. provided the Company with a majority of its international telecommunications network services. Charges for such services are included in cost of telecommunications services in the accompanying statement of operations.

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USFI, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

7. RELATED PARTIES

In March 1995, the Company entered into an agreement with TelePassport Japan

Co., Ltd. ("TelePassport Japan"), an affiliated joint venture formed in 1995, to provide international telecommunication services and to lease switching equipment to TelePassport Japan. Telecommunication revenue for 1996 and 1995 includes \$3,400,000 and \$371,000, respectively, for services provided to TelePassport Japan. The equipment under lease has a net book value of \$140,000 and \$186,000 at December 31, 1996 and 1995, respectively, and is included in property and equipment. The joint venture was terminated in 1997 and the equipment was transferred to an affiliate.

Included in due to affiliates at December 31, 1995 is a \$1,258,000 note due to US Cable Corporation ("US Cable"), an affiliate of certain stockholders. During 1996, US Cable transferred the note to such stockholders who contributed the outstanding balance to capital.

Included in due to affiliates at December 31, 1996 and 1995 are amounts due to TelePassport Japan for carrier charges paid by TelePassport Japan on behalf of the Company and amounts due to US Cable for expenses paid on behalf of the Company.

8. EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution plan that qualifies as a deferred salary arrangement under Section 401(a) of the Internal Revenue Code. All full-time employees meeting minimum service requirements are eligible to participate and may contribute up to 18% of their pre-tax earnings subject to certain Internal Revenue Code restrictions. The Company matches 50% of each employee's contribution up to an annual maximum of \$500 per employee. Total Company contributions for 1996 and 1995 of \$16,000 and \$14,000, respectively, are included in selling, general and administrative expenses.

9. INCOME TAXES

The Company has elected to be taxed as an "S" Corporation for federal income tax purposes. For New York City income tax purposes, the Company is taxed as a "C" corporation and at December 31, 1996 the Company has available New York City net operating loss carryforwards of \$8,488,000, which principally expire in the year 2011. At December 31, 1996, the Company had deferred city income tax assets of \$1,132,000, which are primarily attributable to temporary differences which are not currently

USFI, Inc., and Subsidiary
Notes to Consolidated Financial Statements (continued)

9. INCOME TAXES (CONTINUED)

deductible for income tax purposes, including net operating loss carryforwards, accrued liabilities and certain other reserves. The Company has recorded a full valuation allowance against its deferred tax assets at December 31, 1996.

10. SUBSEQUENT EVENTS

On March 10, 1997, the Company acquired the remaining 49% interest in Mastercall for a purchase price of approximately \$15,000.

During 1997, the Company and certain affiliates planned an initial public offering of common stock. The initial public offering was postponed in April 1997 and subsequently abandoned, and accordingly, the initial public offering was not completed. Costs incurred as of December 31, 1996 related to the initial public offering of \$284,000 are included in 1996 selling, general and administrative expenses.

On September 11, 1997, the Company entered into a letter of intent to sell all of its assets, except for cash and accounts and notes receivable to Primus Telecommunications Group, Incorporated. Subsequent to the sale, the Company intends to cease operations.

Report of Independent Auditors

Board of Directors and Stockholders
USFI, Inc.

We have audited the accompanying balance sheets of USFI, Inc. as of December 31, 1994 and 1993, and the related statements of operations, stockholders' deficit and cash flows for the year ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USFI, Inc. at December 31, 1994 and 1993, and the results of its operations and its cash flows for the year ended December 31, 1994 in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

January 31, 1996

USFI, Inc.

Balance Sheets

[CAPTION]
<TABLE>

	DECEMBER 31	
	1994	1993

<S>	<C>	<C>
ASSETS		
Current Assets:		
Cash	\$ 318,384	\$ 52,672
Accounts receivable, less allowance of \$500,000 in 1994 and \$320,000 in 1993	1,496,020	450,486
Prepaid expenses and other current assets	95,355	51,150

Total current assets	1,909,759	554,308
Property and equipment, net (Note 3)	644,122	261,086
Deferred costs, net of accumulated amortization	12,686	
Deposits	47,133	7,000

Total Assets	\$2,613,700	\$ 822,394
Accounts payable		
Accrued liabilities and other current liabilities	1,242,905	317,644
Reseller deposits and deferred revenue	269,278	116,793
Capital lease obligations	24,376	
Due to affiliates	63,600	480,300

Total current liabilities	4,206,418	1,938,328
Commitments and contingencies (Note 4)		
Stockholders' deficit		
Common stock, no par value, authorized 2,500 shares; issued and outstanding 100 shares in 1994 and 1993	100	100
Additional paid-in capital	4,325,275	1,395,350
Accumulated deficit	(5,918,093)	(2,511,384)

Total stockholders' deficit	(1,592,718)	(1,115,934)

Total liabilities and stockholders' deficit	\$2,613,700	\$ 822,394
	=====	

</TABLE>

See accompanying notes.

2

USFI, Inc.

Statement of Operations

Year ended December 31, 1994

<TABLE>

<S>	<C>	
Net sales	\$ 12,774,803	
Costs and expenses:		
Direct costs (Note 5)	(8,906,908)	
Selling, general and administrative	(6,960,279)	

Total costs and expenses	(15,867,187)	

Loss from operations	(3,092,384)
Other income (expense) (Note 4)	(314,325)

Net loss	\$ (3,406,709)
	=====

</TABLE>

See accompanying notes.

3

Statement of Stockholders' Deficit

Year ended December 31, 1994

<TABLE>				
<CAPTION>				
	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1993	\$100	\$1,395,350	\$ (2,511,384)	\$ (1,115,934)
Cash contributions		1,885,000		1,885,000
Contribution of USFN net assets		1,044,925		1,044,925
Net loss for 1994			(3,406,709)	(3,406,709)
	-----	-----	-----	-----
Balance at December 31, 1994	\$100	\$4,325,275	\$ (5,918,093)	\$ (1,592,718)
	=====	=====	=====	=====

</TABLE>

See accompanying notes.

4

USFI, Inc.

Statement of Cash Flows

Year ended December 31, 1994

<TABLE>	
<S>	<C>
OPERATING ACTIVITIES	
Net loss	\$ (3,406,709)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	99,529
Provisions for losses on receivables	645,570
Changes in operating assets and liabilities:	
Increase in accounts receivable	(1,691,104)
Increase in other current assets	(37,205)
Increase in accounts payable and accrued expenses	2,505,648
Increase in reseller deposits and deferred revenue	152,485
Decrease in due to affiliates	396,738

Net cash used in operating activities	(1,335,048)
INVESTING ACTIVITIES	
Purchase of equipment	(304,438)
Increase in deferred costs	(14,096)

Net cash used in investing activities	(318,534)
FINANCING ACTIVITIES	
Capital contributions (including \$34,294 of cash of USFN)	1,919,294

Net cash provided by financing activities	1,919,294

Increase in cash	265,712
Cash at beginning of year	52,672

Cash at end of year	\$ 318,384
	=====

</TABLE>

See accompanying notes.

USFI, Inc.

Notes to Financial Statements

December 31, 1994

1. ORGANIZATION AND NATURE OF BUSINESS

USFI, Inc. (the "Company") was incorporated in New York on February 12, 1993. The Company provides least cost routing for international long distance telecommunication services, which primarily originate and terminate outside of the United States. All billings for service are denominated in U.S. currency.

Customers are principally located in Western Europe, the Middle East and Japan. No individual customer represents a significant percentage of sales. The Company performs a credit evaluation of all new customers and requires certain customers to provide collateral in the form of a cash deposit or letter of credit.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES

DEPRECIATION

Furniture and equipment are recorded at cost and are depreciated over the estimated useful lives of three to five years, utilizing the straight-line method. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the terms of the leases. Depreciation expense for the year ended December 31, 1994 was \$98,000.

REVENUE RECOGNITION

The Company recognizes revenue from services and the related costs in the period in which the services are rendered.

INCOME TAX

The Company has elected to be taxed as an "S" Corporation and, as such, any income of the Corporation will be taxable directly to the shareholders and not to the corporate entity.

Notes to Financial Statements (continued)

3. PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following at December 31, 1994 and 1993:

<TABLE>

<CAPTION>

	1994	1993
<S>	<C>	<C>
Furniture and equipment	\$ 482,834	\$ 60,071
Switching equipment	412,628	212,273
Leasehold improvements	65,044	
Leased assets	155,763	20,334
	-----	-----
	1,116,269	292,678
Less accumulated depreciation	472,147	31,592
	-----	-----
	\$ 644,122	\$261,086
	=====	=====

</TABLE>

4. COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases office and switch site space under noncancellable operating leases. The future minimum annual rental commitments under leases having terms in excess of one year are as follows:

<TABLE>

<S>	<C>
1995	\$262,000
1996	262,000
1997	262,000
1998	283,000
1999	283,000
2000	131,000

</TABLE>

Rent expense for the year ended December 31, 1994 was \$253,000.

LITIGATION

During 1994, the Company was involved in a contract dispute which was presented to an arbitrator and, in August 1995, an award in the amount of \$333,450 representing damages and administrative fees and costs was determined to be payable by the Company. The Company has appealed the decision. The award amount has been included in other income (expense).

LETTERS OF CREDIT

At December 31, 1994, the Company had letters of credit outstanding amounting to \$400,000 on behalf of certain telecommunications carriers.

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Notes to Financial Statements (continued)

5. MAJOR SUPPLIERS

During 1994, MCI and World Com, Inc. (formerly IDB) provided the Company with a majority of its international telecommunications network services. Charges for such services are included in direct costs in the accompanying statement of operations.

6. RELATED PARTIES

On December 27, 1994 the net assets of US FiberCom Network, Inc. ("USFN"), an inactive affiliate under common control, were merged into the Company, with the net assets recorded at their historical carrying value by the Company. Net

assets, primarily consisting of property and equipment and amounts due from the Company, had a net historical carrying value of \$1,045,000, resulting in an increase to additional paid-in capital of this amount.

Prior to the merger, the Company utilized the fixed assets of USFN and was charged certain expenses amounting to \$86,000, which is included in 1994 selling, general and administrative expenses.

Included in due to affiliates at December 31, 1994 are amounts due to US Cable Corporation, an affiliate, for expenses paid on behalf of the Company. Included in due to affiliates at December 31, 1993 are charges for common operating expenses provided by USFN, which were allocated based on the Company's usage of such items.

7. EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution plan that qualifies as a deferred salary arrangement under Section 401(a) of the Internal Revenue Code. All full-time employees meeting minimum service requirements are eligible to participate and may contribute up to 18% of their pre-tax earnings. The Company matches 50% of each employee's contribution up to an annual maximum of \$390 per employee. Total Company contributions for 1994 were \$7,000 and are included in selling, general and administrative expenses.

8. SUBSEQUENT EVENT

In May 1995, the Company acquired a 51% interest in Mastercall, Ltd., a joint venture that resells the Company's international telecommunications services in the United Kingdom, for a purchase price of \$140,000.