PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
November 16, 2009
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

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

(703) 902-2800

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports),

and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 x Smaller reporting company ¨

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

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

Class	Outstanding as of October 31, 2009
Common Stock $0.001 par value	9,600,000

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

INDEX TO FORM 10-Q

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Successor Three Months Ended September 30, 2009	Predecessor July 1, 2009	Predecessor Three Months Ended September 30, 2008
NET REVENUE	$ 207,947	$	$ 231,256
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	136,076		149,834
Selling, general and administrative	51,139		69,511
Depreciation and amortization	20,029		9,351
(Gain) loss on sale or disposal of assets	83		(4,576)
Total operating expenses	207,327		224,120
INCOME FROM OPERATIONS	620		7,136
INTEREST EXPENSE	(8,763)		(12,810)
ACCRETION ON DEBT DISCOUNT, net			269
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT			121
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	(4,066)		(1,032)
FOREIGN CURRENCY TRANSACTION LOSS	(4,447)		(23,045)
LOSS FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(16,656)		(29,361)
REORGANIZATION ITEMS, net	(307)	431,797	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(16,963)	431,797	(29,361)
INCOME TAX BENEFIT (EXPENSE)	2,085		(1,489)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(14,878)	431,797	(30,850)
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(436)
LOSS FROM SALE OF DISCONTINUED OPERATIONS, net of tax	(110)		
NET INCOME (LOSS)	(14,988)	431,797	(31,286)
Less: Net income attributable to the noncontrolling interest	(210)		(1,934)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (15,198)	$ 431,797	$ (33,220)
BASIC INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.57)	$ 3.03	$ (0.23)
Loss from discontinued operations			
Loss from sale of discontinued operations	(0.01)		
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.58)	$ 3.03	$ (0.23)
DILUTED LOSS PER COMMON SHARE:			
	$ (1.57)	$ 2.49	$ (0.23)

Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated						
Loss from discontinued operations						
Loss from sale of discontinued operations		(0.01)				
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$	(1.58)	$	2.49	$	(0.23)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING						
Basic		9,600		142,695		142,633
Diluted		9,600		173,117		142,633
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$	(15,088)	$	431,797	$	(32,784)
Loss from discontinued operations						(436)
Loss from sale of discontinued operations		(110)				
Net income (loss)	$	(15,198)	$	431,797	$	(33,220)

See notes to consolidated financial statements.

1

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Successor	Predecessor	
	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009	Nine Months Ended September 30, 2008
NET REVENUE	$ 207,947	$ 391,216	$ 692,587
OPERATING EXPENSES			
Cost of revenue (exclusive of depreciation included below)	136,076	255,288	433,813
Selling, general and administrative	51,139	95,836	208,338
Depreciation and amortization	20,029	12,346	25,401
(Gain) loss on sale or disposal of assets	83	(43)	(7,041)
Total operating expenses	207,327	363,427	660,511
INCOME FROM OPERATIONS	620	27,789	32,076
INTEREST EXPENSE	(8,763)	(14,135)	(41,557)
ACCRETION ON DEBT DISCOUNT, net		189	456
GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT			34,608
INTEREST INCOME AND OTHER INCOME (EXPENSE), net	(4,066)	396	2,157
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(4,447)	21,121	(13,204)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES	(16,656)	35,360	14,536
REORGANIZATION ITEMS, net	(307)	440,094	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(16,963)	475,454	14,536
INCOME TAX BENEFIT (EXPENSE)	2,085	(3,907)	(1,527)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(14,878)	471,547	13,009
LOSS FROM DISCONTINUED OPERATIONS, net of tax		(676)	(502)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	(110)	251	
NET INCOME (LOSS)	(14,988)	471,122	12,507
Less: Net (income) loss attributable to the noncontrolling interest	(210)	32	(2,202)
NET INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (15,198)	$ 471,154	$ 10,305
BASIC INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated	$ (1.57)	$ 3.30	$ 0.07
Loss from discontinued operations			
Loss from sale of discontinued operations	(0.01)		
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.58)	$ 3.30	$ 0.07
DILUTED INCOME (LOSS) PER COMMON SHARE:			
	$ (1.57)	$ 2.72	$ 0.06

Income (loss) from continuing operations attributable to Primus Telecommunications Group, Incorporated			
Loss from discontinued operations			
Loss from sale of discontinued operations	(0.01)		
Net income (loss) attributable to Primus Telecommunications Group, Incorporated	$ (1.58)	$ 2.72	$ 0.06
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	9,600	142,695	142,633
Diluted	9,600	173,117	176,138
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED			
Income (loss) from continuing operations, net of tax	$ (15,088)	$ 471,579	$ 10,807
Loss from discontinued operations		(676)	(502)
Gain (loss) from sale of discontinued operations	(110)	251	
Net income (loss)	$ (15,198)	$ 471,154	$ 10,305

See notes to consolidated financial statements.

2

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	Successor September 30, 2009	Predecessor December 31, 2008
CURRENT ASSETS:		
Cash and cash equivalents	$ 41,850	$ 37,000
Accounts receivable (net of allowance for doubtful accounts receivable of $8,210 and $9,710)	92,580	99,483
Prepaid expenses and other current assets	15,665	15,846
Total current assets	150,095	152,329
RESTRICTED CASH	10,177	8,133
PROPERTY AND EQUIPMENT Net	152,028	112,152
GOODWILL	61,086	32,688
OTHER INTANGIBLE ASSETS Net	187,552	746
OTHER ASSETS	22,130	24,396
TOTAL ASSETS	$ 583,068	$ 330,444
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 43,087	$ 58,671
Accrued interconnection costs	43,468	41,422
Deferred revenue	13,686	13,303
Accrued expenses and other current liabilities	49,237	42,440
Accrued income taxes	17,601	18,213
Accrued interest	4,429	10,248
Current portion of long-term obligations	15,442	564,797
Total current liabilities	186,950	749,094
LONG-TERM OBLIGATIONS	237,119	40,040
DEFERRED INCOME TAXES	58,866	
OTHER LIABILITIES	6,786	35
Total liabilities	489,721	789,169
COMMITMENTS AND CONTINGENCIES (See Note 8.)		
STOCKHOLDERS EQUITY (DEFICIT):		
Primus Telecommunications Group, Incorporated Stockholders Equity (Deficit):		
Predecessor 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		
Predecessor Common stock, $0.01 par value 300,000,000 shares authorized; 142,695,390 shares issued and outstanding		1,427
Successor Preferred stock, $0.001 par value 20,000,000 shares authorized; none issued or outstanding		
Successor Common stock, $0.001 par value 80,000,000 shares authorized; 9,600,000 shares issued or outstanding	10	
Additional paid-in capital	84,690	718,956

Accumulated deficit	(15,198)	(1,099,809)
Accumulated other comprehensive income (loss)	20,515	(82,113)
Total Primus Telecommunications Group, Incorporated stockholders equity (deficit)	90,017	(461,539)
Noncontrolling interest	3,330	2,814
Total stockholders equity (deficit)	93,347	(458,725)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 583,068	$ 330,444

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Successor	Predecessor	
	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009	Nine Months Ended September 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (14,988)	$ 471,122	$ 12,507
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Reorganization items, net	307	(440,094)	
Provision for doubtful accounts receivable	2,593	5,140	8,945
Stock compensation expense	308	27	199
Depreciation and amortization	20,029	12,346	25,407
(Gain) loss on sale or disposal of assets	193	(294)	(7,041)
Accretion of debt discount		(189)	(456)
Deferred income taxes			3,201
Gain on early extinguishment or restructuring of debt			(34,608)
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	3,233	(20,702)	13,587
Changes in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	2,634	7,798	(12,276)
Decrease in prepaid expenses and other current assets	2,150	461	8,861
(Increase) decrease in other assets	(3,339)	2,454	1,428
Decrease in accounts payable	(9,949)	(12,794)	(7,237)
Increase (decrease) in accrued interconnection costs	3,719	(5,361)	(4,473)
Increase in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	5,426	1,313	845
Increase (decrease) in accrued income taxes	(3,734)	2,113	(3,503)
Increase (decrease) in accrued interest	4,410	(1,600)	(691)
Net cash provided by operating activities before cash reorganization items	12,992	21,740	4,695
Cash effect of reorganization items	(6,121)	(4,595)	
Net cash provided by operating activities	6,871	17,145	4,695
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(3,886)	(5,660)	(20,756)
Sale of property and equipment	12	179	5,741
Cash from disposition of business, net of cash disposed	(110)	232	1,676
Cash used in business acquisitions, net of cash acquired		(199)	(583)
(Increase) decrease in restricted cash	17	(146)	(100)
Net cash used in investing activities	(3,967)	(5,594)	(14,022)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of the Company s debt securities			(11,217)
Principal payments on long-term obligations	(4,598)	(8,292)	(10,536)
Net cash used in financing activities	(4,598)	(8,292)	(21,753)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,083	1,202	(2,572)

NET CHANGE IN CASH AND CASH EQUIVALENTS		389		4,461		(33,652)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		41,461		37,000		81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	41,850	$	41,461	$	47,630
SUPPLEMENTAL CASH FLOW INFORMATION:						
Cash paid for interest	$	3,977	$	14,909	$	40,533
Cash paid for taxes	$	2,810	$	962	$	1,133
Non-cash investing and financing activities:						
Capital lease additions	$	321	$	1,882	$	364
Settlement of outstanding debt with issuance of new senior secured debt	$		$		$	(133,159)
Issuance of new senior secured debt in exchange for outstanding debt	$		$		$	88,794
Business acquisition financed with note payable	$		$		$	247

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Successor	Predecessor	
	Three Months Ended September 30, 2009	July 1, 2009	Three Months Ended September 30, 2008
NET INCOME (LOSS)	$ (14,988)	$ 431,797	$ (31,286)
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	20,704		6,302
Fresh-start adjustment		89,216	
COMPREHENSIVE INCOME (LOSS)	5,716	521,013	(24,984)
Less: Comprehensive income attributable to the noncontrolling interest	(399)		(1,857)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 5,317	$ 521,013	$ (26,841)

See notes to consolidated financial statements.

5

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Successor	Predecessor	
	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009	Nine Months Ended September 30, 2008
NET INCOME (LOSS)	$ (14,988)	$ 471,122	$ 12,507
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	20,704	(6,954)	2,229
Fresh-start adjustment		89,216	
COMPREHENSIVE INCOME	5,716	553,384	14,736
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(399)	(118)	2,100
COMPREHENSIVE INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ 5,317	$ 553,266	$ 16,836

See notes to consolidated financial statements.

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. EMERGENCE FROM VOLUNTARY REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

Voluntary Reorganization under Chapter 11 On March 16, 2009, Primus Telecommunications Group, Incorporated (Group or PTGI) and three of its subsidiaries, Primus Telecommunications Holding, Inc. (Holding or PTHI), Primus Telecommunications International, Inc. (PTII) and Primus Telecommunications IHC, Inc., (IHC and together with Group, Holding and PTII, collectively, the Debtors) each filed a voluntary petition (the Chapter 11 Cases) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) for reorganization relief (Reorganization) under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*, as amended (the Bankruptcy Code). Subsequently, the Debtors sought and received an order directing the joint administration of the Chapter 11 Cases under the caption In re: Primus Telecommunications Group, Incorporated, et al., Debtors, Case No. 09-10867. On April 8, 2009, April 20, 2009, and April 24, 2009, filings were made by the Debtors in the Bankruptcy Court concerning amended Disclosure Statements and Joint Plans of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors. On April 24, 2009, an unsecured creditors committee was appointed by the United States Trustee.

On April 27, 2009, the Bankruptcy Court approved the Debtors use of a disclosure statement dated April 27, 2009 (the Disclosure Statement) to solicit votes on the Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors attached thereto (the Plan). The Disclosure Statement was distributed to holders of record (as of April 27, 2009) of claims against, and interests in, the Debtors who are entitled to vote on the Plan (the Record Date).

The order approving the Disclosure Statement also (i) established the Record Date and a voting deadline of June 5, 2009, (ii) established June 5, 2009 as the last date and time for filing and serving objections to confirmation of the Plan (and related requirements and procedures set forth in such order), and (iii) fixed June 1, 2009 as the deadline for claimants and interest holders to file and serve motions under Bankruptcy Rule 3018(a) requesting temporary allowance of the movant s claim or interest for purposes of voting.

The Plan was confirmed by the Bankruptcy Court on June 12, 2009 (the Confirmation Date). On July 1, 2009 (the Effective Date), the Debtors consummated their reorganization under the Bankruptcy Code and the Plan became effective.

The Plan provides for a plan of reorganization of the Debtors on terms that are summarized below:

- Holding s Term Loan facility due February 2011 was reinstated and amended (see Amended Term Loan Facility below);

- IHC s 14 1/4% Senior Secured Notes were cancelled and the holders thereof received (a) their pro rata portion of $123.5 million of aggregate principal amount of 14 1/4% Senior Subordinated Secured Notes due May 20, 2013 (see Amendment of IHC s 1/4% Senior Secured Notes Indenture below), (b) 4,800,000 shares of the new Common Stock of Group (the New Common Stock), and (c) all reasonable fees, expenses and disbursements of their counsel;

- the 5% Exchangeable Senior Notes and 8% Senior Notes issued by Holding (collectively, the Holding Senior Notes) were cancelled, and the holders thereof received (a) 4,800,000 shares of the New Common Stock, (b) Class A warrants to purchase up to an aggregate of 3,000,000 shares of New Common Stock on terms described below under Warrant Agreements, and (c) all reasonable fees, expenses and disbursements of their counsel;

the 3 3/4 % Senior Notes due September 2010, 12 3/4% Senior Notes due October 2009 and Step Up Convertible Subordinated Debentures due August 2009 issued by Group (collectively, the Group Notes) were cancelled, and the holders thereof received Class B warrants to purchase up to an aggregate of 1,500,000 shares of the New Common Stock on terms described below under Warrant Agreements;

all existing shares of common stock outstanding prior to the Effective Date (the Old Common Stock) were cancelled on the Effective Date, and holders thereof received their pro rata share of contingent value rights (Contingent Value Rights or CVRs) to acquire up to 2,665,000 shares of New Common Stock on terms described below under Contingent Value Rights Distribution Agreement;

all outstanding equity incentive grants of Group were cancelled on the Effective Date, and the Primus Telecommunications Group, Incorporated Management Compensation Plan (the Management Compensation Plan) became effective. As of the Effective Date, 400,000 restricted stock units, 387,403 service-based stock options and 100,000 performance-based stock options were granted to certain employees and executive officers under the Management Compensation Plan.

The following table summarizes the effect of the Plan of Reorganization adjustments with respect to long-term obligations after giving effect to the July 1, 2009 emergence from bankruptcy.

	Predecessor	Plan of Reorganization Adjustments	Successor
Long-Term Obligations			
Obligations under capital leases and other	$ 5,056	$	$ 5,056
Leased fiber capacity	2,531		2,531
Senior secured term loan facility	95,750		95,750
Canadian credit facility	29,500		29,500
Senior secured subordinated notes		123,472	123,472
Subtotal	132,837	123,472	256,309
Less: Current portion of long-term obligations	(107,097)	91,100	(15,997)
Total long-term obligations	$ 25,740	$ 214,572	$ 240,312
Liabilities Subject to Compromise			
Senior secured notes	$ 173,157	$ (173,157)	$
Senior notes	200,186	(200,186)	
Exchangeable senior notes	23,369	(23,369)	
Convertible senior notes	34,200	(34,200)	
Step up convertible subordinated debentures	8,641	(8,641)	
Accrued interest	11,497	(11,497)	
Total liabilities subject to compromise	$ 451,050	$ (451,050)	$

Notwithstanding effectiveness of the Plan, we expect to continue to have significant debt service obligations on a long-term basis. Cash flows from operations are not anticipated to be sufficient to make the balloon payments on the remaining outstanding $94.8 million principal amount of Senior Secured Term Loan Facility and the $28.0 million principal amount of Canadian Credit Facility due February and May 2011, respectively; therefore, we expect to seek external financing prior to that date. There can be no assurance we will be successful in these efforts to consummate timely any such transactions or at all or to obtain any such financing on acceptable terms or at all, especially in consideration of the state of the current global economic and credit situation.

Table of Contents

Agreements Relating to the Debtors Securities

Amended Term Loan Facility

As of the Effective Date, Group and Holding entered into a Third Amendment to the Term Loan Agreement, dated as of February 18, 2005 (as amended through the date hereof, the Amended Term Loan), with the several banks and other financial institutions or entities from time to time parties thereto, Lehman Commercial Paper, Inc., a debtor and debtor in possession under chapter 11 of the Bankruptcy Code acting through one or more of its branches as the Administrative Agent and The Bank of New York Mellon, as the successor Administrative Agent. In accordance with the Amended Term Loan, Holding s Term Loan facility due February 2011 was reinstated and amended in certain respects, including: (i) at the option of Holding, interest rates are now (A) LIBOR + 9.00% with a LIBOR floor of 3.00% (or LIBOR + 11.00% with 4.00% to be paid in kind) or (B) Prime Rate + 8.00% with a Prime Rate floor of 4.00% (or Prime Rate + 10.00% with 4.00% to be paid in kind); (ii) The Bank of New York Mellon has been appointed as successor Administrative Agent; (iii) amortization payments have been increased; (iv) mandatory prepayments are required from (A) 25% of the net proceeds of certain equity issuances (including 25% of the cash of businesses acquired in exchange for equity), (B) 100% of the net proceeds from debt issuances (other than as permitted under the limitation of indebtedness covenant), and (C) 80% of net cash proceeds from asset sales or insurance recoveries not otherwise reinvested within 180 days or committed to reinvestment within 270 days of such asset sales; (v) Group or its affiliates are able to purchase annually up to $5 million in principal amount of loans at less than par without being subject to the pro-rata provisions of the Term Loan facility (or purchases in excess of such annual amount by way of an offer to all lenders), any such purchased loans deemed immediately cancelled; and (vi) certain covenants have been modified, including restrictions on the ability to incur additional debt and the addition of a minimum EBITDA covenant, a maximum indebtedness covenant and a maximum capital expenditure covenant. In addition, the Debtors have agreed to pay all reasonable fees, expenses and disbursements of counsel and the financial advisor to the Term Loan lenders.

Amendment of IHC s 14.25% Senior Secured Notes Indenture

On the Effective Date, IHC, Group, Holding, the other Guarantors party thereto and U.S. Bank National Association, as trustee, entered into a supplemental indenture (the Supplemental Indenture) to the indenture governing IHC s 14 1/4% Senior Secured Notes due 2011 (the Original Indenture). The Supplemental Indenture amended the Original Indenture to provide for the issuance of 14 1/4% Senior Subordinated Secured Notes due May 20, 2013 (the Senior Subordinated Secured Notes). At the option of IHC, prior to the earlier of (1) the extension of the maturity of or the repayment in full of the indebtedness outstanding pursuant to the Amended Term Loan and the loan facility entered into by Primus Telecommunications Canada Inc., an indirect wholly owned subsidiary of Group, and (2) June 1, 2011, up to 4.25% per annum of the interest on the Senior Subordinated Secured Notes may be paid in kind. The Supplemental Indenture also modified covenants in the Original Indenture to prevent subsidiary guarantors from incurring debt to refinance indebtedness of non-guarantors and to limit the incurrence of indebtedness of restricted persons that is secured by a lien on the assets of IHC, any subsidiary guarantor or other restricted persons, as defined under the modified indenture.

Pursuant to the Plan, the 14 1/4% Senior Secured Notes due 2011 were cancelled on the Effective Date and the holders thereof received their pro rata portion of approximately $123.5 million aggregate principal amount of Senior Subordinated Secured Notes.

On the Effective Date, IHC entered into a First Amendment to the Intercreditor Agreement, dated as of February 26, 2007 (as amended through the date hereof, the Amended Intercreditor Agreement), with Group, Holding, The Bank of New York Mellon, as First Lien Collateral Agent, and U.S. Bank National Association, as Second Lien Collateral Agent. Pursuant to the Amended Intercreditor Agreement, the Senior Subordinated Secured Notes shall be subordinated in right of payment to the prior indefeasible payment in cash in full of all obligations under the Amended Term Loan.

Also on the Effective Date, IHC, each of the Grantors party thereto and U.S. Bank National Association, as collateral agent, entered into a First Amendment to the Collateral Agreement, dated as of February 26, 2007 (as amended through the date hereof, the Amended Collateral Agreement), to provide that the obligations of both IHC and PTII, an indirect wholly owned subsidiary of Group, shall be secured by PTII s assets, including 65% of the voting stock of foreign subsidiaries owned by PTII. In addition, on the Effective Date, Group and Holding entered into an Assumption Agreement in favor of U.S. Bank National Association, as collateral agent, pursuant to which each of Group and Holding became party to the Amended Collateral Agreement. As a result, Group and Holding s existing guarantees of the Senior Subordinated Secured Notes are secured by a lien on the property of Group and Holding, respectively.

Warrant Agreements

As of the Effective Date, Group issued Class A warrants to purchase up to an aggregate of 3,000,000 shares of New Common Stock to holders of the Holding Notes. The Class A warrants consist of 1,000,000 each of Class A-1 warrants, Class A-2 warrants and Class A-3 warrants. In connection with the issuance of the Class A warrants, Group entered into a warrant agreement, dated as of the Effective Date (the Class A Warrant Agreement), with StockTrans, Inc., as warrant agent. Subject to the terms of the Class A Warrant Agreement, Class A-1 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $12.22 per share, Class A-2 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $16.53 per share, and Class A-3 warrant holders are entitled to purchase up to 1,000,000 shares of New Common Stock at an initial exercise price of $20.50 per share. The Class A warrants have a five-year term and will expire on July 1, 2014. A holder may exercise Class A warrants by paying the applicable exercise price in cash. In addition, a holder may exercise Class A warrants on a cashless basis in connection with a change of control (as defined in the Class A Warrant Agreement), in connection with a transaction pursuant to an effective registration statement covering the sale of New Common Stock underlying such Class A warrants, or if the exercise occurs on a date when the daily volume-weighted average price of the New Common Stock for the immediately preceding 10 trading days exceeds 150% of the exercise price applicable to such Class A warrants. The Class A warrants are freely transferrable by the holder thereof.

As of the Effective Date, Group issued Class B warrants to purchase up to an aggregate of 1,500,000 shares of New Common Stock to holders of the Group Notes. In connection with the issuance of the Class B warrants, Group entered into a warrant agreement, dated as of the Effective Date (the Class B Warrant Agreement), with StockTrans, Inc., as warrant agent. Subject to the terms of the Class B Warrant Agreement, Class B warrant holders are entitled to purchase 1,500,000 shares of New Common Stock at an initial exercise price of $26.01 per share. The Class B warrants have a five-year term and will expire at on July 1, 2014. A holder may exercise Class B warrants by paying the applicable exercise price in cash. In addition, a holder may exercise Class B warrants on a cashless basis in connection with a change of control (as defined in the Class B Warrant Agreement), in connection with a transaction pursuant to an effective registration statement covering the sale of New Common Stock underlying such Class B warrants, or if the exercise occurs on a date when the daily volume-weighted average price of the New Common Stock for the immediately preceding 10 trading days exceeds 150% of the exercise price applicable to the Class B warrants. The Class B warrants are freely transferrable by the holder thereof.

The number of shares of New Common Stock issuable upon exercise of the Class A warrants and Class B warrants (together, the Warrants) and the exercise prices of the Warrants will be adjusted in connection with any dividend or distribution of New Common Stock, assets or cash (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of Group), or any subdivision or combination of the New Common Stock. In addition, the number of shares of New Common Stock issuable upon exercise of the Warrants and the exercise prices of the Warrants are also subject to adjustment in connection with any issuance, grant or sale to any person of (A) rights, warrants, options, exchangeable securities or convertible securities entitling such person to subscribe for, purchase or otherwise acquire shares of New Common Stock at a price per share less than the fair market value of the New Common Stock on the trading day immediately prior to such issuance, sale or grant, subject to certain exceptions, or (B) shares of New Common Stock at a price per share less than the fair market value of the New Common Stock on the trading day immediately prior to such issuance, sale or grant. Additionally, if any transaction or event occurs in which all or substantially all of the outstanding New Common Stock is converted into, exchanged for, or the holders thereof are otherwise entitled to receive on account thereof stock, other securities, cash or assets (each, a Fundamental Change Transaction) the holder of each Warrant outstanding immediately prior to the occurrence of such Fundamental Change Transaction shall have the right to receive upon exercise of the applicable Warrant the kind and amount of stock, other securities, cash and/or assets that such holder would have received if such Warrant had been exercised.

Upon Effective Date, the Company determined the fair value of the warrants issued was approximately $1.0 million and included as part of our new equity value recorded upon emergence.

Contingent Value Rights Distribution Agreement

Pursuant to the terms of the Plan, Group issued to holders of Group s Old Common Stock Contingent Value Rights to receive up to an aggregate of 2,665,000 shares (the CVR Shares) of New Common Stock. In connection with the issuance of the Contingent Value Rights, Group entered into a Contingent Value Rights Distribution Agreement (the CVR Agreement), in favor of holders of CVRs thereunder, dated as of the Effective Date.

The CVRs may not be transferred by the holder thereof except in certain limited circumstances. Subject to the terms of the CVR Agreement, holders of CVRs will receive their pro rata share of up to 2,665,000 CVR Shares. A distribution of CVR Shares is required to be made by Group if, as of any determination date (described below), Group s equity value (assuming cash exercise in full on such date of in-the-money warrants and options of Group) divided by the sum of the number of shares of New Common Stock then issued and outstanding plus the number of shares of New Common Stock underlying warrants, options and similar securities of Group (other than CVRs) that are then in-the-money exceeds $35.95. The aggregate number of such shares of New Common Stock is referred to as the Applicable Shares; the price per share of $35.95, subject to adjustment as described below, is referred to as the CVR Strike Price; and the per share amount of any such excess over the CVR Strike Price is referred to as the Excess Equity Value Per Share. If such a distribution is required, the number of CVR Shares to be distributed by Group equals the product of Excess Equity Value Per Share multiplied by the number of Applicable Shares divided by the CVR Strike Price. Such product of Excess Equity Value Per Share and the number of Applicable Shares is referred to as the Excess Equity Value.

Group will determine if and to the extent a distribution of CVR Shares is required on January 1 and July 1 of each year, commencing on the first such date (but in no event later than July 1, 2013) on which certain financial thresholds outlined in the CVR Agreement are met, and upon a change of control of Group. Distributions of CVR Shares (if any) will be made within 45 calendar days of a determination by Group that a distribution is required.

Notwithstanding the foregoing, no distribution of CVR Shares is required to be made by Group unless Excess Equity Value exceeds $1 million as of any determination date.

The number of CVR Shares and the CVR Strike Price will be adjusted from time to time in connection with any stock dividend or distribution, or subdivision, split, combination, reclassification or recapitalization of the New Common Stock. In addition, if Group distributes to holders of New Common Stock any of its assets (including but not limited to cash), securities or rights to purchase securities of Group (other than any regular cash dividend not to exceed in any fiscal year 45% of the consolidated net income of Group for the immediately preceding fiscal year), then the number of CVR Shares will be increased and the CVR Strike Price will be decreased, in each case pursuant to the terms of the CVR Agreement. Additionally, in case of any reclassification, merger, consolidation, capital reorganization or other change in the capital stock of Group (other than in connection with a change of control) in which all or substantially all of the outstanding shares of New Common Stock are converted into or exchanged for stock, other securities or other property, Group shall make appropriate provision so that the holders of Contingent Value Rights shall thereafter be entitled to receive, at such time such holder would have otherwise been entitled to receive a distribution under the CVR Agreement, the kind and amount of stock and other securities and property having a value substantially equivalent to the value of New Common Stock that the holders of Contingent Value Rights would have been entitled to receive in connection with a distribution of CVR Shares immediately prior to such reclassification, merger, consolidation, reorganization or other change in the capital stock of Group at a CVR Strike Price that, in each case, is reasonably determined by the board of directors of Group after consultation with an independent valuation advisor to preserve, to the extent practicable, the intrinsic value of such CVR immediately prior to such event.

The Contingent Value Rights will expire and the CVR Agreement will terminate upon the earliest to occur of: (1) the date upon which no further CVR Shares are available for distribution, (2) the consummation of a change of control (subject to any potential distribution of CVR Shares as a result thereof), and (3) July 1, 2019.

Due to the nature of CVR, the company accounted for the instrument in accordance with ASC No. 815, Derivatives and Hedging, as well as related interpretations of these standards. The Company determined these CVRs to be derivative instruments to be accounted for as liabilities and marked to fair value at each balance sheet date. Upon issuance, the Company recorded a liability of $2.6 million in other liabilities as part of fresh-start accounting, and will adjust the liability quarterly to its estimated fair value. The change in value is reflected in our Statements of Operations as other income (expense). The Company recognized $4.2 million of expense during the three months ended September 30, 2009 (the Successor Period).

Current Impact on Group s Subsidiaries that have not sought Reorganization. Group s subsidiaries other than Holding, IHC and PTII were not part of the Reorganization; operating subsidiary companies, including those in the United States, Australia, Canada, India, Europe and Brazil (the Operating Subsidiaries), were not party to the Reorganization and have continued to manage and to operate their businesses without interruption, and employees, customers, suppliers and partners of these Operating Subsidiaries were unaffected by the filing of the Chapter 11 Cases.

The New Common Stock is quoted on the Over-the-Counter Bulletin Board (OTCBB) and trades under the symbol PMUG.

2. 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 Company s three months ended September 30, 2009 and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

In accordance with Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) No. 852, Reorganizations, for periods including and subsequent to the filing of the Chapter 11 petition through the bankruptcy emergence date of July 1, 2009, all pre-petition liabilities subject to compromise were segregated in the unaudited Consolidated Condensed Balance Sheets and classified as liabilities subject to compromise, at management s estimate of the amount of allowable claims. Liabilities not subject to compromise were separately classified as current and non-current in the unaudited Consolidated Condensed Balance Sheet. Revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization were

Table of Contents

reported separately as reorganization items, net, in the unaudited Consolidated Condensed Statements of Operations. Net cash used for reorganization items was disclosed separately in the unaudited Consolidated Condensed Statements of Cash Flows. The outcome of the Plan materially changed the amounts reported in the financial statements, which did not give effect to all adjustments of the carrying value of assets or liabilities that were necessary as a consequence of the Plan, or the effect of any operational changes that may be made in the business.

As of July 1, 2009, the Company adopted fresh-start accounting in accordance with ASC No. 852. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to July 1, 2009 are not comparable with the financial statements for periods after July 1, 2009. The consolidated condensed statements of operations, comprehensive income (loss) and any references to Successor or Successor Company for the three months ended September 30, 2009, show the operations of the reorganized Company from and including July 1, 2009, the Effective Date, through September 30, 2009. References to Predecessor or Predecessor Company refer to the operations of the Company prior to July 1, 2009, except for Predecessor s July 1, 2009 statements of operations and comprehensive income (loss), which reflect only the effect of the plan adjustments and fresh-start accounting as of such date and do not reflect any operating results. See Note 4 Fresh-Start Accounting in the notes to these Consolidated Condensed Financial Statements for further details.

The results for all periods presented in this quarterly Form 10-Q reflect the activities of certain operations as discontinued operations (see Note 12 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include the Company s accounts, its wholly-owned subsidiaries and all other subsidiaries over which the Company exerts control. The Company owns 45.6% of Globility Communications Corporations (GCC) through direct and indirect ownership structures. The results of GCC and its subsidiary are consolidated with the Company s results based on guidance from ASC 810, Consolidation. All intercompany profits, transactions and balances have been eliminated in consolidation.

In the first quarter 2009, the Company sold certain assets of its Japan retail operations. Therefore, the Company reported Japan retail operations as a discontinued operation. During the second quarter of 2008, the Company intended and had the authority to sell certain assets of its German retail operations, and therefore, reported this unit as a discontinued operation. However, buyers were not found; therefore the Company decided it would cease operations of the German retail business effective the first quarter of 2009.

Table of Contents

Effective January 1, 2009, the Company adopted ASC No. 810, Consolidation. This statement changes the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. Reconciliations at the beginning and the end of the period of the total equity, equity attributable to the Company and equity attributable to the noncontrolling interest for Successor s three months ended September 30, 2009 and Predecessor s six months ended July 1, 2009 and nine months ended September 30, 2008 are as follows (in thousands):

			Predecessor As of September 30, 2008					
			Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock					
	Total	Comprehensive Income (Loss)	Shares	Amount	Additional Paid-In Capital	Accumulated Income (Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of January 1, 2008	$ (446,701)		142,633	$ 1,426	$ 718,695	$ (1,074,778)	$ (92,883)	$ 839
Stock Option Compensation Expense	200				200			
Comprehensive Income								
Net income	12,507	$ 12,507				10,305		2,202
Other comprehensive income	2,229	2,229					2,331	(102)
Comprehensive Income	14,736	$ 14,736						
Balance as of September 30, 2008	$ (431,765)		142,633	$ 1,426	$ 718,895	$ (1,064,473)	$ (90,552)	$ 2,939

			Predecessor As of July 1, 2009					
			Primus Telecommunications Group, Incorporated Shareholders					
			Common Stock					
	Total	Comprehensive Income	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance as of January 1, 2009	$ (458,725)		142,695	$ 1,427	$ 718,956	$ (1,099,809)	$ (82,113)	$ 2,814
Stock Option Compensation Expense	27				27			
Comprehensive Income								
Net income (loss)	39,325	$ 39,325				39,357		(32)
Other comprehensive income (loss)	(6,954)	(6,954)					(7,103)	150
Comprehensive Income	32,371	$ 32,371						
Balance as of June 30, 2009	$ (426,327)		142,695	$ 1,427	$ 718,983	$ (1,060,452)	$ (89,216)	$ 2,931
Plan and fresh-start adjustments	513,650		(133,095)	(1,417)	(634,601)	1,060,452	89,216	
Balance as of July 1, 2009	$ 87,323		9,600	$ 10	$ 84,382	$	$	$ 2,931

Table of Contents

	Successor As of September 30, 2009 Primus Telecommunications Group, Incorporated Shareholders							
			Common Stock					
	Total	Comprehensive Income	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interest
Balance as of July 1, 2009	$ 87,323		9,600	$ 10	$ 84,382	$	$	$ 2,931
Stock Option Compensation Expense	308				308			
Comprehensive Income								
Net income (loss)	(14,988)	$ (14,988)				(15,198)		210
Other comprehensive income (loss)	20,704	20,704					20,515	189
Comprehensive Income	5,716	$ 5,716						
Balance as of September 30, 2009	$ 93,347		9,600	$ 10	$ 84,690	$ (15,198)	$ 20,515	$ 3,330

Presentation of 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 The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation under ASC No. 718, Compensation Stock Compensation, consistent with that used for pro forma disclosures under ASC No. 718. 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. Because of the short trading history of the New Common Stock, the Company calculates the expected volatility by averaging the historical volatility of the stock price of the New Common Stock and historical volatility of a peer group in the telecommunication industry with similar market capitalization. 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.

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results may differ from these estimates. Significant estimates include allowance for doubtful accounts receivable, accrued interconnection cost disputes, the fair value of embedded derivatives, market assumptions used in estimating the fair values of certain assets and liabilities such as marketable securities, long-term obligations and liabilities subject to compromise, the calculation used in determining the fair value of the Company s stock options required by ASC No. 718, various tax contingencies, asset impairment write-downs, and purchase price allocations.

Under fresh-start accounting, the Company s asset values were remeasured and allocated in conformity with ASC No. 805, Business Combinations. Deferred taxes are reported in conformity with ASC No. 740, Income Taxes.

Upon the emergence from the bankruptcy on July 1, 2009, the Company entered into an arrangement for issuing Contingent Value Rights (CVRs) that contained derivative features. The Company accounted for the

Table of Contents

arrangement in accordance with ASC No. 815, Derivatives and Hedging. The Company determined these CVRs to be derivative instruments to be accounted for as liabilities and marked to fair value at each balance sheet date. Upon issuance, the Company recorded CVRs as a liability in its balance sheet at their estimated fair value. Changes in their estimated fair value of are recognized in earnings during the period of change.

Estimates of fair value represent the Company s best estimates based on independent appraisals or various valuations technique including Black-Scholes and, where the foregoing have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. Any adjustments to the recorded fair values of these assets and liabilities may impact the amount of recorded goodwill.

Property, Plant and Equipment The Predecessor s property and equipment was recorded at cost less accumulated depreciation, which was provided on the straight-line method over the estimated useful lives of the assets. Cost included major expenditures for improvements and replacements which extend useful lives or increase capacity of the assets as well as expenditures necessary to place assets into readiness for use. Expenditures for maintenance and repairs were expensed as incurred. The estimated useful lives of property and equipment were as follows: network equipment 5 to 8 years, fiber optic and submarine cable 8 to 25 years, furniture and equipment 5 years, leasehold improvements and leased equipment shorter of lease or useful life. In accordance with ASC No. 350, Intangible Goodwill and Other, costs for internal use software that were incurred in the preliminary project stage and in the post-implementation stage were expensed as incurred. Costs incurred during the application development stage were capitalized and amortized over the estimated useful life of the software. Successor s property, plant, and equipment were adjusted to fair value on the Effective Date and are currently stated at that value less accumulated depreciation and amortization. There is no change in the estimated useful lives of the property and equipment and the method of depreciation.

Subsequent Events Management evaluated subsequent events through November 16, 2009, the date the financial statements are issued, for this quarterly report on Form 10-Q, for the quarter ended September 30, 2009.

Newly Adopted Accounting Principles

Effective July 1, 2009, the Company adopted ASC No. 105, Generally Accepted Accounting Principles. ASC No. 105 establishes the FASB Accounting Standards Codification as the source of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. The adoption did not have a material impact on its results of operations, financial position and cash flows.

Effective April 1, 2009, the Company adopted ASC No. 855, Subsequent Events. ASC No. 855 establishes principles and requirements for evaluating and reporting subsequent events and distinguishes which subsequent events should be recognized in the financial statements versus which subsequent events should be disclosed in the financial statements. ASC No. 855 also requires disclosure of the date through which subsequent events are evaluated by management. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted ASC No. 470-20, Debt with Conversion and Other Options. ASC No. 470-20 requires issuers of convertible debt securities to separate securities into a debt component and an equity component, resulting in the debt component being recorded at fair value without consideration given to the conversion feature. Issuance costs are also allocated between the debt and equity components. ASC No. 470-20 requires that convertible debt within its scope reflect a company s nonconvertible debt borrowing rate when interest expense is recognized. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted ASC No. 805, Business Combinations. ASC No. 805 establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. The adoption did not have a material effect on the Company s results of operations, financial position or cash flows; however, the Company applied this standard on July 1, 2009 to the Fresh Start Balance Sheet.

In February 2008, the FASB issued ASC No. 820, Fair Value Measurements. The provisions of ASC No. 820 provide guidance for, among other things, the definition of fair value and the methods used to measure fair value, were adopted January 1, 2008 for financial instruments. The provisions adopted in 2008 did not have a material impact on the Company s financial statements. ASC No. 820 delayed the effective date for all nonrecurring fair value measurements of nonfinancial assets and liabilities (except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis) until financial years beginning after November 15, 2008, and changed the scope of ASC No. 820. On January 1, 2009, the Company adopted the provisions of ASC No. 820 for nonrecurring fair value measurements of nonfinancial assets and liabilities. The provisions adopted in the first quarter 2009 did not have an impact on the Company s financial statements as the Company did not have any fair value measurements of nonfinancial assets and liabilities as of September 30, 2009.

The valuation techniques required by ASC No. 820 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

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

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

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

The Company had an outstanding cross-currency principal and interest rate agreement with Lehman Brothers Special Financing, Inc., who entered bankruptcy in October 2008 and ceased performing on the agreement. The Company estimated the value to be zero, requiring a write-off of $1.2 million in the third quarter of 2008, and moved the instrument from Level 2 to Level 3 because the counter party s credit risk is not observable.

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

		Fair Value as of September 30, 2009, using:		
	September 30, 2009	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Contingent Value Rights	$ 6,786		$ 6,786	
Total	$ 6,786		$ 6,786	

In March 2008, the FASB issued ASC No. 815, Derivatives and Hedging. ASC No. 815 amends and expands the disclosure requirements with the intent to provide users of financial statements with an enhanced understanding of the use of derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity s financial statements. ASC No. 815 is effective for financial statements issued for fiscal years interim periods beginning after November 15, 2008. The adoption on January 1, 2009 did not have a material impact on the Company s results of operations, financial position and cash flows.

New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46 (R), which amends the definition of the primary beneficiary of a variable interest entity and will require the Company to assess each reporting period if any of the Company s variable interests give it a controlling financial interest in the applicable variable interest entity. The provisions of SFAS No. 167 will become effective for financial statements issued for fiscal years and interim periods begin after November 15, 2009. The Company is currently evaluating the impact the provisions of SFAS No. 167 on its financial statements.

4. FRESH-START ACCOUNTING

On July 1, 2009, the Company adopted fresh-start accounting in accordance with ASC No. 852, Reorganizations. Fresh-start accounting results in the Company becoming a new entity for financial reporting purposes. Accordingly, the Successor Company s consolidated financial statements are not comparable to consolidated financial statements of the Predecessor Company.

Under ASC No. 852, the Successor Company must determine a value to be assigned to the equity of the emerging company as of the date of adoption of fresh-start accounting. To facilitate this calculation the Company first determined the enterprise value of the Successor Company. The valuation methods included (i) a discounted cash flow analysis, considering a range of the weighted average cost of capital between 14.0% and 16.0% and multiples of projected earnings of between 4.5 and 5.0 times for its terminal value, and (ii) a market multiples analysis. This analysis resulted in an estimated enterprise value of between $320 million and $360 million, and with the midpoint of $340 million chosen for purposes of applying fresh-start accounting.

The estimated enterprise value, and corresponding equity value, is highly dependent upon achieving the future financial results set forth in the financial projections included in the Company s Plan, as filed with the Bankruptcy Court. These projections were limited by the information available to the Company as of the date of the preparation of the projections and reflected numerous assumptions concerning anticipated future performance and prevailing and anticipated market and economic conditions that were and continue to be beyond the Company s control and that may not materialize. Projections are inherently subject to uncertainties and to a wide variety of significant business, economic and competitive risks. Therefore variations from the projections may be material.

Table of Contents

Fresh-start accounting reflects the value of the Company as determined in the confirmed Plan. Under fresh-start accounting, the Company s asset values are remeasured and allocated in conformity with ASC No. 805, Business Combinations. The excess of reorganization value over the fair value of tangible and identifiable intangible assets is recorded as goodwill in the accompanying consolidated condensed balance sheet. Fresh-start accounting also requires that all liabilities, other than deferred taxes and pension and other postretirement benefit obligations, should be stated at fair value.

Estimates of fair value included in the Successor Company financial statements, in conformity with ASC No. 820, represent the Company s best preliminary estimates based on independent appraisals and valuations and, where the foregoing have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The foregoing estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. In accordance with ASC No. 805, the preliminary allocation of the reorganization value is subject to additional adjustment until the Company has completed its analysis, but not to exceed one year after emergence from bankruptcy, to provide the Company with the time to complete the valuation of its assets and liabilities. The final determination of the fair value of individual assets and liabilities and the final allocation of the reorganization value may differ from the amounts included in the consolidated financial statements and there can be no assurance that such adjustments will not be material.

The following fresh-start Consolidated Condensed Balance Sheet presents the financial effects on the Company of the implementation of the Plan and the adoption of fresh-start accounting. The effect of the consummation of the transactions contemplated in the Plan includes the settlement of liabilities and the issuance of common stock as described in more detail in Note 1.

Table of Contents

The effects of the Plan and fresh-start reporting on the Company s Consolidated Condensed Balance Sheet are as follows:

	Predecessor July 1, 2009	Plan of Reorganization Adjustments		Fresh-Start Accounting Adjustments		Successor July 1, 2009
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 41,461	$		$		$ 41,461
Accounts receivable	93,826					93,826
Prepaid expenses and other current assets	16,955					16,955
Total current assets	152,242					152,242
RESTRICTED CASH	9,467					9,467
PROPERTY AND EQUIPMENT Net	117,840			34,173	d	152,013
GOODWILL	35,351			23,997	d, h	59,348
OTHER INTANGIBLE ASSETS Net	482			187,518	d	188,000
OTHER ASSETS	19,155			182	h	19,337
TOTAL ASSETS	$ 334,537	$		$ 245,870		$ 580,407
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 50,890	$		$		$ 50,890
Accrued interconnection costs	38,778					38,778
Deferred revenue	12,322					12,322
Accrued expenses and other current liabilities	53,982					53,982
Accrued income taxes	20,986					20,986
Accrued interest	19					19
Current portion of long-term obligations	107,097	(91,100)	g			15,997
Total current liabilities	284,074	(91,100)				192,974
LONG-TERM OBLIGATIONS	25,740	214,572	e, g			240,312
OTHER LIABILITIES		2,557	b	57,241	h	59,798
Total liabilities not subject to compromise	309,814	126,029		57,241		493,084
LIABILITIES SUBJECT TO COMPROMISE	451,050	(451,050)	a			
Total Liabilities	760,864	(325,021)		57,241		493,084
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS EQUITY (DEFICIT):						
Primus Telecommunications Group, Incorporated Stockholders Equity (Deficit):						
Predecessor Common stock, $0.01 par value 300,000,000 shares authorized; 142,695,390 shares issued and outstanding	1,427	(1,427)	c			
Successor Common stock, $0.001 par value 80,000,000 shares authorized; 9,600,000 shares issued or outstanding		10	a			10
Predecessor Additional paid-in capital	718,983	(1,129)	c, b	(717,854)	f	
Successor Additional paid-in capital		84,382	a			84,382
Accumulated deficit	(1,060,452)	243,185	a	817,267	d, f	
Accumulated other comprehensive income (loss)	(89,216)			89,216	f	
	(429,258)	325,021		188,629		84,392

Total Primus Telecommunications Group, Incorporated stockholders income (deficit)				
Noncontrolling interest	2,931			2,931
Total stockholders income (deficit)	(426,327)	325,021	188,629	87,323
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 334,537	$	$ 245,870	$ 580,407

Notes to Plan of Reorganization and fresh-start accounting adjustments:

(a) This adjustment reflects the discharge of $451.0 million of liabilities subject to compromise (see Liabilities Subject to Compromise below) in accordance with the terms of the Plan and the issuance of 4.8 million shares of Successor Company common stock to the holders of each of the Senior Subordinated Secured Notes and the Holding Senior Notes.

(b) To record the issuance of Contingent Value Rights to the holders of the Old Common Stock.

(c) To record the cancellation of the Old Common Stock.

(d) To record assets and liabilities at their estimated fair values per fresh-start accounting and the related revaluation gain of $188.6 million.

(e) To reclass Term Loan from current portion of long-term obligations to long-term obligations and record the issuance of $123.5 million of the Senior Subordinated Secured Notes.

(f) To eliminate Predecessor additional paid-in capital, accumulated other comprehensive loss and accumulated deficit.

(g) To reclass long-term portion of the Term Loan to long-term obligations.

(h) To record the deferred tax attributes related to fresh-start accounting.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill reflects the excess of the reorganization value of Successor over the fair value of tangible and identifiable intangible assets as determined upon the adoption of fresh-start accounting. The Company recorded goodwill of $59.3 million upon emergence from bankruptcy as well as intangible assets of $188.0 million, which includes $81.6 million of indefinite-lived trade names, $102.4 million of amortizable customer relationships, and $4.0 million of amortizable trade names.

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

	Successor September 30, 2009	Predecessor December 31, 2008
Trade names	$ 81,808	$
Goodwill	$ 61,086	$ 32,688

The changes in the carrying amount of trade names and goodwill for Successor s balance as of September 30, 2009 and Predecessor s balance as of December 31, 2008 are as follows (in thousands):

Goodwill

	Predecessor					
	United States	Canada	Australia	Europe	Brazil	Total
Balance as of January 1, 2009	$ 194,256	$ 102,777	$ 30,775	$ 110,229	$ 3,884	$ 441,921
Accumulated impairment losses	(194,256)	(80,864)	(20,157)	(110,229)	(3,727)	(409,233)
Net goodwill		21,913	10,618		157	32,688
Effect of currency exchange		1,266	1,365		32	2,663
Balance as of June 30, 2009	$	$ 23,179	$ 11,983	$	$ 189	$ 35,351
Fresh-start adjustments	32,273	2,462	(11,337)	750	(151)	23,997
Balance as of July 1, 2009	$ 32,273	$ 25,641	$ 646	$ 750	$ 38	$ 59,348

	Successor					
Balance as of July 1, 2009	$ 32,273	$ 25,641	$ 646	$ 750	$ 38	$ 59,348
Effect of currency exchange		1,651	53	29	5	1,738
Balance as of September 30, 2009	$ 32,273	$ 27,292	$ 699	$ 779	$ 43	$ 61,086

Table of Contents

Trade Names

	United States	Canada	Predecessor Australia	Europe	Brazil	Total
Fresh-start adjustments	76,200			5,400		81,600
Balance as of July 1, 2009	$ 76,200	$	$	$ 5,400	$	$ 81,600
			Successor			
Balance as of July 1, 2009	$ 76,200	$	$	$ 5,400	$	$ 81,600
Effect of currency exchange				208		208
Balance as of September 30, 2009	$ 76,200	$	$	$ 5,608	$	$ 81,808

The Successor s other intangible assets consist of the Company s trade names and customer relationships. Intangible assets subject to amortization consisted of the following (in thousands):

	Successor September 30, 2009			Predecessor December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade names	$ 4,043	$ (100)	$ 3,943	$ 1,665	$ (1,575)	$ 90
Customer relationships	108,708	(6,907)	101,801	3,806	(3,150)	656
Total	$ 112,751	$ (7,007)	$ 105,744	$ 5,471	$ (4,725)	$ 746

Amortization expense for customer relationships and trade names for Successor s three months ended September 30, 2009 was $7.0 million. The Company expects amortization expense for customer relationships and trade names for Successor s remainder of 2009, the years ended December 31, 2010, 2011, 2012 and thereafter to be approximately $7.0 million, $23.2 million, $18.8 million, $13.3 million and $43.4 million, respectively.

6. LONG-TERM OBLIGATIONS

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

	Successor September 30, 2009	Predecessor December 31, 2008
Obligations under capital leases and other	$ 3,518	$ 4,851
Leased fiber capacity	2,746	2,172
Senior secured term loan facility	94,825	96,250
Canadian credit facility	28,000	35,000
Senior notes		200,186

Senior subordinated secured notes	123,472	198,960
Exchangeable senior notes		25,122
Convertible senior notes		34,006
Step up convertible subordinated debentures		8,290
Subtotal	252,561	604,837
Less: Current portion of long-term obligations	(15,442)	(564,797)
Total long-term obligations	$ 237,119	$ 40,040

Table of Contents

Successor

The following table reflects the contractual payments of principal and interest for Successor s long-term obligations as of September 30, 2009 as follows:

Year Ending December 31,	Vendor Financing and Other	Senior Secured Term Loan Facility (1)	Senior Subordinated Secured Notes	Canadian Credit Facility (2)	Total
2009 (as of September 30, 2009)	$ 727	$ 3,833	$ 7,331	$ 1,992	$ 13,883
2010	4,497	16,767	17,595	7,685	46,544
2011	1,223	89,713	17,595	21,036	129,567
2012	349		17,595		17,944
2013	161		132,269		132,430
Thereafter	33				33
Total Minimum Principal & Interest Payments	6,990	110,313	192,385	30,713	340,401
Less: Amount Representing Interest	(726)	(15,488)	(68,913)	(2,713)	(87,840)
Total Long Term Obligations	$ 6,264	$ 94,825	$ 123,472	$ 28,000	$ 252,561

(1) For preparation of this table, the Company has assumed the interest rate of the Senior Secured Term Loan Facility to be 12.0%.

(2) For preparation of this table, the Company has assumed the interest rate of the Canadian Credit Facility to be 7.0%.

Senior Secured Term Loan Facility

In February 2005, a direct wholly-owned subsidiary of the Company, Primus Telecommunications Holding, Inc. (Holding), 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 Holding 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 6.00%). The Facility contained no financial maintenance covenants. The Company borrowed $100 million under this Facility in February 2005.

The Facility was 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 Holding s option at any time after February 18, 2006. The Facility is guaranteed by the Company and certain of Holding s domestic subsidiaries and is secured by certain assets of Holding and its guarantor subsidiaries and by partial stock pledges of certain foreign subsidiaries.

In February 2007, the Company received unanimous consent to an amendment of its existing $100 million Facility. This amendment enabled Primus Telecommunications IHC, Inc. (IHC), a wholly-owned indirect subsidiary of the Company, to issue and have at any one time outstanding up to $200 million of existing authorized indebtedness in the form of newly authorized secured notes with a second lien security position. On February 26, 2007, an Intercreditor Agreement was entered into between the 14 $^{1}/4$% Senior Secured Notes and the lenders of the Facility. Pursuant to this authorization, the Company has issued certain 14 $^{1}/4$% Senior Secured Notes. The amendment allowed for an increase of $^{1}/4$% to the interest rate of the Facility and adjusted the early call features. The effective interest rate for the Facility at December 31, 2008 was 10.2%.

Table of Contents

The debt under the Facility was in default as a result of the bankruptcy filings on March 16, 2009. On the Effective Date, Group and Holding entered into a Third Amendment to the Term Loan Agreement (the Amended Term Loan). In accordance with the Amended Term Loan, Holding s Term Loan facility due February 2011 was reinstated and amended in certain respects, including: (i) at the option of Holding, interest rates are now (A) LIBOR + 9.00% with a LIBOR floor of 3.00% (or LIBOR + 11.00% with 4.00% to be paid in kind) or (B) Prime Rate + 8.00% with a Prime Rate floor of 4.00% (or Prime Rate + 10.00% with 4.00% to be paid in kind); (ii) The Bank of New York Mellon has been appointed as successor Administrative Agent; (iii) amortization payments have been increased; (iv) mandatory prepayments are required from (A) 25% of the net proceeds of certain equity issuances (including 25% of the cash of businesses acquired in exchange for equity), (B) 100% of the net proceeds from debt issuances (other than as permitted under the limitation of indebtedness covenant), and (C) 80% of net cash proceeds from asset sales or insurance recoveries not otherwise reinvested within 180 days or committed to reinvestment within 270 days of such asset sales; (v) Group or its affiliates are able to purchase annually up to $5 million in principal amount of loans at less than par without being subject to the pro-rata provisions of the Term Loan facility (or purchases in excess of such annual amount by way of an offer to all lenders), any such purchased loans deemed immediately cancelled; and (vi) certain covenants have been modified, including restrictions on the ability to incur additional debt and the addition of a minimum EBITDA covenant, a maximum indebtedness covenant and a maximum capital expenditure covenant. In addition, the Debtors have agreed to pay all reasonable fees, expenses and disbursements of the counsel and financial advisors to the Term Loan lenders.

The Third Amendment modified the amortization schedule under the Term Loan so that principal payments will be due on the dates and in the amounts set forth below:

Payment Date	Principal Payment Amount
March 31, 2009	$ 250,000
June 30, 2009	$ 250,000
September 30, 2009	$ 925,000
December 31, 2009	$ 925,000
March 31, 2010	$ 1,400,000
June 30, 2010	$ 1,400,000
September 30, 2010	$ 1,400,000
December 31, 2010	$ 1,400,000
February 18, 2011	$88,300,000

On March 31, 2009, June 30, 2009 and September 30, 2009, principal payments of $250,000, $250,000 and $925,000, respectively, were paid as required under the Amended Term Loan.

The Third Amendments provides for the modification of Term Loan covenants concerning the incurrence of debt, including the elimination of most of the exceptions to the limitation on debt incurrence other than

(a) an aggregate of $50 million of specified indebtedness (of which approximately $40 million is outstanding as of September 30, 2009);

(b) an additional unsecured debt basket of up to an aggregate dollar cap of $7.5 million;

(c) debt to finance acquisitions, limited to 2.5 times the annual EBITDA acquired and satisfy acquisition debt standards; and

(d) additional permitted debt, including debt arising from the use of PIK.

The Third Amendment provides for modification of a number of other Term Loan covenants, including:

modification of the restricted payments covenant to make clear that any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or

Table of Contents

retirement for value of any debt, including but not limited to any of the 14 $^{1}/4$% Senior Subordinated Secured Notes issued by IHC (the Second Lien Debt), other than Indebtedness representing the Term Loans and specified indebtedness will be a Restricted Payment ; provided that Restricted Payments shall not include (a) any repayment, repurchase or retirement of any indebtedness in connection with any permitted refinancing or (b) any repurchase of indebtedness with equity proceeds or asset sale proceeds not otherwise required to be applied in prepayment of the Term Loans. The restricted payments covenant contains customary restrictions, including, but not limited to, a cap of $1 million;

modification of the limitation on liens covenant deleting the incurrence test and expressly prohibiting any liens other than permitted liens;

modification of the restriction on certain purchases of Indebtedness covenant precluding Group and each restricted subsidiary from repaying, prepaying or purchasing debt, excluding specified debt and other certain limited exceptions;

The Third Amendment provides for the inclusion of financial covenants concerning Minimum Adjusted EBITDA, Maximum Debt and Maximum Capital Expenditures (Capex) and provides that

the Adjusted EBITDA covenant initially will be calculated beginning September 30, 2009 based on the trailing four quarters for the periods ended September 30, 2009 and December 31, 2009, and such calculations will be made using specified constant currency rates (e.g., CAD 0.80; AUD 0.65; EUR 1.275 and GBP 1.40) (Minimum Adjusted EBITDA);

currency rates in effect on December 31, 2009 and June 30, 2010 will be used for purposes of calculating compliance for quarters ended during the next succeeding six month periods, but such currency rates will not be used retroactively for any periods prior to such date;

Minimum Adjusted EBITDA compliance is set at $50 million, calculated quarterly based upon the prior four quarters effective September 30, 2009. Failure to meet the Minimum Adjusted EBITDA covenant will not be an event of default, except in circumstances noted in the succeeding proviso, and would result in a financial penalty of $250,000 per quarter in incremental amortization plus a 50 basis point increase in the interest rate during the quarters of non-compliance, provided however that if the Adjusted EBITDA is below $42 million it will constitute an event of default. The minimum Adjusted EBITDA will be calculated quarterly based upon the last four quarters results in a manner consistent with the definition used by the Company in past earnings releases, subject to the addition of reorganization cost adjustments and adjustments for divestitures and acquisitions.

Maximum Debt is $270 million plus additional debt accrued from the use of PIK and for debt arising from acquisitions which debt would be limited to 2.5 times annual EBITDA acquired and as long as such debt satisfies Acquisition Debt standards; the Maximum Debt covenant is required to be maintained at all times following substantial consummation of the plan of reorganization; and

Maximum Capex is $18 million in 2009 and $23 million in 2010, calculated annually effective December 31, 2009, and subject to adjustment for divestitures and acquisitions.

Canadian Credit Facility

In March 2007, an indirect wholly-owned subsidiary of the Company, Primus Telecommunications Canada, Inc. (Primus Canada) entered into a Senior Secured Credit Agreement (Canadian Credit Facility) with a financial institution to refinance an existing Canadian credit facility. The Canadian Credit Facility provided for a $35.0 million non-amortizing loan bearing interest at a rate of LIBOR plus 425 basis points and matured in March 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 Canadian Credit Facility was secured by the assets of Primus Canada and certain guarantees.

25

Table of Contents

In October 2007, Primus Canada entered into a cross-currency principal and interest rate swap agreement, a portion of which was required by the Canadian Credit Facility, which fixed the interest rate at 9.21% starting from October 31, 2007. The cross-currency principal and interest rate swap agreement s counter party was Lehman Brothers Special Financing, Inc. (Lehman SFI). Lehman SFI entered into bankruptcy in early October 2008 following its ultimate parent entering bankruptcy in mid-September 2008. Since September 2008 month end interest rate swap payments were not made by Lehman SFI to Primus Canada nor, correspondingly, were payments made from Primus Canada to Lehman SFI. While the covenant language is arguably ambiguous, the Company believed that the swap agreement with Lehman SFI continued to be in force with respect to the requirements under the Canadian Credit Facility and, accordingly, that no breach or event of default had occurred. The Waiver and Amendment Agreement (described below), eliminated any currency swap requirements of the Canadian Credit Facility.

On August 25, 2009, Primus Canada provided notice of Early Termination of the swap agreement, effective August 26, 2009. On September 16, 2009, Primus Canada filed Proofs of Claim in the bankruptcy proceedings of Lehman SFI and Lehman Brothers Holdings Inc. (LBHI), which was the guarantor of Lehman SFI s obligations under the swap agreement and which also is in bankruptcy. Lehman SFI and LBHI have stated they reserve all rights to dispute the Proof of Claim, including the effectiveness of Primus Canada s termination notice. The eventual outcome of this matter is unknown. As of September 30, 2009, the Company has not maintained any balances concerning the Lehman cross-currency principal and interest rate swap agreement.

On March 10, 2009, Primus Canada, 3082833 Nova Scotia Company and certain affiliate guarantors entered into a Waiver and Amendment Agreement (the Waiver and Amendment) to their $35 million Canadian Credit Facility with Guggenheim Corporate Funding, LLC, as Administrative Agent and Collateral Agent.

The lenders under the Waiver and Amendment waived events constituting events of default and potential events of default under the Canadian Credit Facility, subject to the terms and conditions of the Waiver and Amendment. Such events included waivers covering certain specified events that have occurred and may constitute an event of default under the Canadian Credit Facility and anticipated events, including anticipated events of default. Anticipated events include events related to the plan of reorganization involving one or more of the guarantors and contemplated by the Waiver and Amendment (the Contemplated Plan), the occurrence of a material adverse effect arising as a result of the Chapter 11 Cases, the failure of a guarantor to make payment when due with respect to indebtedness (or the acceleration of indebtedness) of a guarantor at any time before the Contemplated Plan is effective and certain provisions of the guarantee being deemed invalid or unenforceable against a guarantor in connection with the Chapter 11 Cases for the Canadian Credit Facility. Specified waived events include:

- the failure of Primus Canada to maintain certain hedging agreements, Lehman unsecured hedging agreements or unsecured hedging agreements reasonably satisfactory to the Administrative Agent to hedge the full amount of its currency rate exposures with respect to the aggregate principal amount outstanding under the Canadian Credit Facility;

- the actions the guarantors have taken to authorize or effect certain actions related to the Reorganization; and

- the failure to deliver to the Administrative Agent an Officer s Certificate in connection with the events described in the preceding bullets.

26

Table of Contents

The Waiver and Amendment permits Primus Canada to incur certain second-lien secured term loans that do not exceed $5 million and guarantees by the credit parties. The Canadian Credit Facility, as amended, obligates Primus Canada to pay loan principal amounts under the Canadian Credit Facility on the dates and in the amounts set forth below:

Payment Date	Principal Payment Amount
March 31, 2009	$ 500,000
April 30, 2009	$ 500,000
May 31, 2009	$ 500,000
June 30, 2009	$ 2,250,000
The last day of each calendar month from and including July 2009 to and including April 2011	$ 500,000

As of September 30, 2009, principal payments of each month were made as required under the Waiver and Amendment and the Company had an outstanding liability of $28.0 million under the Canadian Credit Facility.

In connection with the Waiver and Amendment, the applicable margin under the Canadian Credit Facility was increased to LIBOR +4.50%, with a 2.50% LIBOR floor, and the maturity date was changed to May 21, 2011.

14 $^{1}/4$% Senior Subordinated Secured Notes

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 12 $^{3}/4$% Senior Notes and $23.6 million in cash. This exchange was 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) was $69.2 million. The Company recorded $5.1 million in costs associated with this issuance of the 14 $^{1}/4$% Senior Secured Notes, which have been recorded as a loss on restructuring of debt.

In May 2008, IHC issued $67.1 million principal amount of the 14 $^{1}/4$% Senior Secured Notes and paid $4.7 million in cash in exchange for $49.0 million principal amount of the Company s 8% Senior Notes, $33.0 million principal amount of the Company s 5% exchangeable senior notes due June 2010 (5% Exchangeable Senior Notes), $43.1 million principal amount of the Company s 3 $^{3}/4$% Convertible Senior Notes, and $5.3 million principal amount of the Company s 12 $^{3}/4$% Senior Notes. All exchanges were deemed troubled debt restructurings, and accordingly, were accounted for as modifications of debt, with scheduled future cash interest payments of $26.4 million recorded in long-term obligations. The Company recognized a gain on restructuring of debt of $32.2 million in connection with this exchange, including the expensing of $0.5 million of financing costs.

The 14 $^{1}/4$% Senior Secured Notes were to 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 December 31, 2008 was 12.4% for those amounts not related to the troubled debt restructuring discussed above. (see Note 15 Guarantor/Non-Guarantor Consolidating Condensed Financial Information.)

In December 2008, the Company made open market purchases of $2.1 million principal amount of its 14 $^{1}/4$% Senior Secured Notes, resulting in a $2.0 million gain on early extinguishment of debt including the write-off of related deferred financing costs. The notes were recorded as a reduction of long-term obligations.

27

On the Effective Date, IHC, Group, Holding, the other Guarantors party thereto and U.S. Bank National Association, as trustee, entered into a supplemental indenture (the Supplemental Indenture) to the indenture governing IHC s 14¼% Senior Secured Notes due 2011 (the Original Indenture). The Supplemental Indenture amended the Original Indenture to provide for the issuance of the Senior Subordinated Secured Notes . The maturity of the Senior Subordinated Secured Notes was extended to May 20, 2013. At the option of IHC, prior to the earlier of (1) the extension of the maturity of or the repayment in full of the indebtedness outstanding pursuant to the Amended Term Loan and the Canadian Credit Facility, and (2) June 1, 2011, up to 4.25% per annum of the interest on the Senior Subordinated Secured Notes may be paid in kind. The Supplemental Indenture also modified covenants in the Original Indenture to prevent subsidiary guarantors from incurring debt to refinance indebtedness of non-guarantors and to limit the incurrence of indebtedness of restricted persons that is secured by a lien on the assets of IHC, any subsidiary guarantor or other restricted persons, as defined under the modified indenture.

On the Effective Date, IHC entered into a First Amendment to the Intercreditor Agreement (as amended through the date hereof, the Amended Intercreditor Agreement), with Group, Holding, The Bank of New York Mellon, as First Lien Collateral Agent, and U.S. Bank National Association, as Second Lien Collateral Agent. Pursuant to the Amended Intercreditor Agreement, the Senior Subordinated Secured Notes are subordinated in right of payment to the prior indefeasible payment in cash in full of all obligations under the Amended Term Loan.

Also on the Effective Date, IHC, each of the Grantors party thereto and U.S. Bank National Association, as collateral agent, entered into a First Amendment to the Collateral Agreement (as amended through the date hereof, the Amended Collateral Agreement), to provide that the obligations of both IHC and PTII, an indirect wholly owned subsidiary of Group, are secured by PTII s assets, including 65% of the voting stock of foreign subsidiaries owned by PTII. In addition, on the Effective Date, Group and Holding entered into an Assumption Agreement in favor of U.S. Bank National Association, as collateral agent, pursuant to which each of Group and Holding became party to the Amended Collateral Agreement. As a result, Group and Holding s existing guarantees of the Senior Subordinated Secured Notes are secured by a lien on the property of Group and Holding, respectively.

Leased Fiber Capacity

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity in Australia for 51.1 million Australian dollars (AUD) ($28.5 million at December 31, 2000) from Optus Networks Pty. Limited. As of December 31, 2001, the Company had fulfilled the total purchase obligation. The Company signed a promissory note payable over a four-year term ending in April 2005 bearing interest at a rate of 14.31%. During the three months ended June 30, 2003, the Company renegotiated the payment terms extending the payment schedule through March 2007, and lowering the interest rate to 10.2%. In October 2006, the Company renegotiated the payment terms of its promissory note payable to Optus Networks Pty. Limited to defer principal payments from April 2006 through December 2006 and was obligated to pay the remaining balance in three equal monthly principal payments in the first quarter 2007. In February 2007, the Company again renegotiated the payment terms of its $8.8 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. During the third quarter 2008, the payment terms were again renegotiated to extend payment of the principal balance of $2.7 million (3.1 million AUD) to June 2010 with monthly payments of interest at a rate of 13.5%. Certain volume purchase targets were not met by September 30, 2009. Accordingly, Optus Networks Pty. Limited may give, but has not given, 30 days notice requiring full payment of the principal balance. At September 30, 2009 and December 31, 2008, the Company had a liability recorded in the amount of $2.7 million (3.1 million AUD). Also, $2.7 million (3.1 million AUD) and $0 million were classified as current portion of long-term obligations at September 30, 2009 and December 31, 2008, 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. In June 2009, the Company entered into an amendment which removed certain financial covenants and required a principal payment of $1.2 million (1.5 million AUD) in the same month. In September 2009, the Company made a principal payment of $1.6 million (1.8 million AUD) and completed the full repayment of the debt.

Predecessor

In accordance with the Plan, on the Effective Date all of the obligations of Group and its subsidiaries with respect to the following indentures were terminated and the respective notes and debentures issued under each such indenture were cancelled:

Indenture, dated as of January 16, 2004, by and among Holding, as Issuer, Group, as Guarantor, and Wachovia Bank N.A., as Trustee, relating to the 8% Senior Notes due 2014;

Indenture, dated as of June 28, 2006, by and among Holding, as Issuer, Group, as Guarantor, and U.S. Bank N.A., as Trustee, relating to the 5% Exchangeable Senior Notes due 2009;

Indenture, dated as of September 15, 2003, by and between Group and Wachovia Bank, N.A., as Trustee, relating to the 3 $^{3}/4$% Convertible Senior Notes due 2010;

Indenture, dated as of February 27, 2006, by and between Group and U.S. Bank N.A., as Trustee, relating to the Step-up Convertible Subordinated Debentures due 2009; and

Indenture, dated as of October 15, 1999, by and between Group and First Union National Bank, as Trustee, relating to the 12 $^{3}/4$% Senior Notes due 2009.

7. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and leased fiber capacity financing (Vendor Financing), purchase obligations and non-cancellable operating leases as of September 30, 2009 are as follows (in thousands):

	Successor		
Year Ending December 31,	**Vendor Financing and Other**	**Purchase Obligations**	**Operating Leases**
2009 (as of September 30, 2009)	$ 727	$ 7,093	$ 4,330
2010	4,497	17,719	13,724
2011	1,223	4,305	10,186
2012	349	2,761	8,559
2013	161		6,038
Thereafter	33		9,075
Total minimum lease payments	6,990	31,878	51,912
Less: Amount representing interest	(726)		

	$ 6,264	$ 31,878	$ 51,912

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. Generally, 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 Successor made purchases under purchase commitments of $7.0 million for the three months ended September 30, 2009. The Predecessor made purchases under purchase commitments of $12.8 million, $8.7 million and $27.7 million for the six months ended June 30, 2009, three months and nine months ended September 30, 2008, respectively.

Successor s rent expense under operating leases was $3.8 million for the Successor Period. Predecessor s rent expense under operating leases was $6.8 million, $4.0 million and $13.0 million for the six months ended June 30, 2009, three months and nine months ended September 30, 2008, respectively.

Litigation

Group and its subsidiaries are subject to claims, legal proceedings and potential regulatory actions 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. 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.

8. SHARE-BASED COMPENSATION

Successor

On the Effective Date, pursuant to the Plan, the Predecessor s employee stock compensation plan (the Equity Incentive Plan) was cancelled and the Group s Management Compensation Plan became effective. The Management Compensation Plan provides that awards may be granted for up to 1,000,000 shares of New Common Stock, subject to adjustment in the case of certain changes in capitalization of reorganized Group, including, among other things, a reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, or other similar corporate transaction or event that affects the New Common Stock. The maximum aggregate number of shares of New Common Stock that may be granted during any fiscal year to any single individual who is likely to be a covered employee within the meaning of section 162(m)(3) of the Internal Revenue Code is 600,000, in the case of stock options or stock appreciation rights, and 400,000, in the case of restricted stock or other stock-based awards (other than stock appreciation rights).

The Compensation Committee (the Committee) of the Board of Directors of Group administers the Management Compensation Plan. The Committee has broad authority to administer, construe and interpret the Management Compensation Plan; however, it may not take any action with respect to an award that would be treated, for accounting purposes, as a repricing of an award unless the action is approved by the shareholders of Group.

The Management Compensation Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, and other stock-based or cash-based performance awards (collectively, awards).

Grants of Awards under the Management Compensation Plan Emergence Awards

Restricted Stock Unit Award Agreements

On July 2, 2009, 400,000 restricted stock units (RSUs) were granted to certain employees and executive officers pursuant to the terms and conditions set forth in the form of restricted stock unit agreement (the Emergence RSU Agreement).

Pursuant to the Emergence RSU Agreement, RSUs will vest in two equal tranches if reorganized Group attains at least ninety percent (90%) of the specified Adjusted EBITDA Targets for any fiscal year during the ten-year term of the Emergence RSU Agreement. Under certain circumstances specified in the Emergence RSU Agreement, if a participant s employment is terminated during any fiscal year in which the applicable percentage of the Adjusted EBITDA Target for such fiscal year is met, a pro rata portion of such participant s RSUs will vest based on the number of days such participant was employed during such fiscal year. The aggregate grant date fair value of the RSUs issued during the period was $1.6 million. For three months ended September 30, 2009, the Company recognized $0.3 million expense regarding this RSUs grant.

Stock Option Award Agreements

On July 1, 2009, 387,403 service-based stock options were granted to certain employees and executive officers pursuant to the terms and conditions set forth in the form of stock option agreement (the Emergence Option Agreement) and 100,000 performance-based stock options were granted to certain employees and executive officers pursuant to the terms and conditions set forth in the form of performance stock option agreement (the Emergence Performance Option Agreement).

Emergence Option Agreement

The Emergence Option Agreement provides for the grant of a nonqualified stock option to purchase shares of New Common Stock at an exercise price per share equal to $12.22. The option vests ratably over two years, with 25% of the option vesting every six months after the date of grant. The stock option expires on the tenth anniversary of the Effective Date (the Expiration Date). A copy of the Emergence Option Agreement was filed as an exhibit to the Company s Form 8-K filed with the SEC on July 1, 2009. The aggregate grant date fair value of the emergence stock options granted was $48 thousand. For three months ended September 30, 2009, the Company recognized $6 thousand expense regarding this emergence option grant.

Emergence Performance Option Agreement

The Emergence Performance Option Agreement provides for the grant of a nonqualified stock option to purchase shares of New Common Stock at an exercise price per share equal to $12.22. The performance option vests in two equal tranches if at least 115% of the specified Adjusted EBITDA Target is attained for any fiscal year during the term of the Emergence Performance Option Agreement. Under certain circumstances specified in the Emergence Performance Option Agreement, if a participant s employment is terminated during any fiscal year in which the applicable percentage of the Adjusted EBITDA Target for such fiscal year is met, a pro rata portion (based on the number of days such participant was employed during such fiscal year) of such participant s performance options will vest and remain exercisable until the earlier of one year following the date on which the Committee determines the applicable percentage of such Adjusted EBITDA Target has been attained (the Measurement Date) and the tenth anniversary of the Effective Date (the Expiration Date). Any unvested portion of the performance option which is not vested and exercisable as of the Measurement Date will thereafter terminate. The performance option expires on the Expiration Date. A copy of the Emergence Performance Option Agreement was filed as an exhibit to the Company s Form 8-K filed with the SEC on July 1, 2009. The aggregate grant date fair value of the emergence performance stock options granted was $12 thousand. For three months ended September 30, 2009, the Company recognized $2 thousand expense regarding this emergence performance option grant.

Non-Employee Directors Grants

Unless otherwise provided by the Committee, immediately following each annual meeting of the shareholders of Group during the term of the Management Compensation Plan commencing with the 2010 annual meeting of shareholders, each non-employee director will be granted a nonqualified stock option to purchase 10,000 shares of New Common Stock with an exercise price per share equal to the fair market value of a share of New Common Stock on the date of grant. Each stock option so granted will vest one third upon grant, one third on the first anniversary and one third on the second anniversary, such that 100% of the option will be vested and exercisable on the second anniversary of the grant date (subject to continued service as a non-employee director through each applicable vesting date). All other terms and conditions of the grants will be established by the Committee and set forth in the non-employee director s award agreement.

Table of Contents

A summary of Successor s stock option activity during the three months ended September 30, 2009 is as follows:

	Successor Three Months Ended September 30, 2009	
	Shares	Weighted Average Exercise Price
Outstanding July 1, 2009		$
Granted	487,403	$ 12.22
Exercised		$
Forfeitures		$
Outstanding September 30, 2009	487,403	$ 12.22
Eligible for exercise		$

The weighted average fair value at date of grant for options granted during the three months ended September 30, 2009 was $0.12 per option. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Successor Three Months Ended September 30, 2009
Expected dividend yield	0%
Expected stock price volatility (1)	42%
Risk-free interest rate	2.0%
Expected option term	4 years

(1) Expected volatility is based upon the historical volatility of the Company s stock price. Because of the short trading history of the Company s new Common Stock, the Company calculates the expected volatility by averaging the historical volatility of the Company s New Common Stock price from July 13, 2009 to September 30, 2009 at a rate of 36.4% and the historical volatility of the stock price of a peer group in the telecommunications industry with similar market capitalization from October 1, 2004 to September 30, 2009 at a rate of 48.3%.

The following table summarizes information about Successor s stock options outstanding at September 30, 2009:

	Options Outstanding				Options Exercisable			
Range of Option Prices	Total Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value	Total Exercisable	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value
$12.22	487,403	9.75	$ 12.22	$			$	$
	487,403	9.75	$ 12.22	$			$	$

For Emergence Performance Option and RSU compensation expense calculation, the Company assumes that it will meet the specified Adjusted EBITDA Targets in the next two consecutive fiscal years; therefore, according to the Plan, the two equal tranches of the options and RSUs will vest in Year 1 and Year 2, consecutively.

As of September 30, 2009, Successor had 0.9 million unvested awards outstanding of which $1.4 million of compensation expense will be recognized over the weighted average remaining vesting period of 1.47 years. The number of unvested awards expected to vest is 0.4 million shares, with a weighted average remaining life of 9.75 years, a weighted average exercise price of $12.22, and an intrinsic value of $0.

Table of Contents

Predecessor

Under the Plan of Reorganization, all stock options granted under the Predecessor s Equity Incentive Plan were cancelled as of the Effective Date and $64 thousand of share-based compensation expense was recognized due to the accelerated recognition of the cancelled options. The Predecessor Company recorded an incremental $67 thousand and $199 thousand stock-based compensation expenses for the three and nine months ended September 30, 2008, respectively.

10. INCOME TAXES

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

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

Jurisdiction	Open Tax Years
United States Federal	2000, 2002, 2003, 2005 2008
Australia	2001 2008
Canada	2003 2008
United Kingdom	2003 2008

The Company is currently under examination in Canada and certain other non-material foreign tax jurisdictions not listed above, none of which are individually material.

The Company adopted the provisions of ASC No. 740, Income Taxes, on January 1, 2007. It is expected that the amount of unrecognized tax benefits, reflected in the Company s financial statements, will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company. During the three months ended June 30, 2009, the Company obtained new information supporting certain existing tax positions of its Australian subsidiaries that resulted in a reduction of $8.1 million in the unrecognized tax benefits established in accordance with ASC No. 740. The reduction in the unrecognized tax benefit had the effect of an increase in deferred tax assets with an equal offset to the valuation allowance resulting in no effect on the financial statements.

Upon the Company s emergence on July 1, 2009 from bankruptcy, the amount of the Company s aggregate indebtedness was reduced. The reduction in the Company s indebtedness will result in cancellation of debt (COD) income for tax purposes of approximately $329 million for the calendar year ending 2009. Because realization of such income will occur under the Bankruptcy Code, the Company will reduce federal and state net operating losses (NOL s) attributes and will reduce the tax basis in other assets including U.S. and foreign stock basis and certain loan receivables. For state tax purposes, the 2009 COD income is expected to substantially reduce or completely eliminate the state NOLs.

As a result of the adoption of fresh start accounting upon emergence from bankruptcy as discussed in Note 4, the Company has increased its deferred tax liabilities by $57.1 million and increased goodwill by $57.1 million to reflect the increase in book basis certain assets adjusted for the fresh start, which had no increase in basis for tax purposes. $31.7 million of the goodwill and deferred tax liabilities relate to the fresh start increase to indefinite lived intangibles other than goodwill. This deferred tax liability will remain indefinitely, subject to reduction only if the related indefinite lived intangibles which gave rise to the deferred tax liabilities are impaired. The reduction of the deferred tax liability due to impairment of the underlying intangibles will provide a tax-benefited offset to any future impairment expense. The remaining $25.4 million of deferred tax liability will result in a tax benefit as the underlying amortizable intangible asset is amortized to the income statement. The relief of these deferred tax liability will not result in any payment of cash by the company.

Table of Contents

In accordance with ASC No 805, the preliminary allocation of the reorganization value is subject to additional adjustment until the Company has completed its analysis, but not to exceed one year after emergence from bankruptcy, to provide the Company with the time to complete the valuation of the various attributes as a result of the Plan. The final determination of the tax assets and liabilities may differ from the amounts included in the consolidated financial statements and there can be no assurance that such adjustments will not be material.

On an ongoing basis, the Company monitors activity in its 5% shareholder base for substantial changes in ownership as defined under Internal Revenue Code Section 382 (Section 382). The Company believes that it underwent an ownership change for tax purposes (i.e., a more than 50% change in stock ownership change on the July 1, 2009 emergence date). As a result, the use of any of the Company s federal and state NOL carryforwards and tax credits generated prior to the ownership change (that are not reduced pursuant to the provisions discussed in the preceding paragraph) will be subject to an annual limitation of approximately $1.7 million. The Company continues to monitor its ownership shifts and believes that there has not been a further ownership change as of September 30, 2009.

Section 382(l)(5) provides for an exception to the limitations of Section 382 for certain corporations that emerge from bankruptcy. The Company believes that it may meet the requirements for the benefits under Section 382(l)(5) but needs to complete its analysis to confirm whether or not such requirement have been met. The Company has the ability to elect out of the benefits of Section 382(l)(5) and apply the annual limitation. The election must be made with the filing of the Company s calendar year 2009 federal income tax return no later than the extended due date of September 15, 2010. Certain future requirements must be met to receive the benefits of Section 382(l)(5). The Company will continue to monitor its tax position and evaluate the requirements to qualify for Section 382(l)(5) and make a final determination related to this tax treatment.

The Company is required to determine whether it had a net unrealized built-in gain (NUBIG) or net unrealized built-in loss (NUBIL) at the 2009 emergence date. The Company believes that there was a NUBIL at the time of the 2009 emergence date. As a result, certain depreciation and loss deductions recognized during the five-year period beginning on the 2009 emergence date would be subject to the section 382 limitation if the Company does not qualify for the benefits under Section 382(l)(5).

11. OPERATING SEGMENT AND RELATED INFORMATION

The Company has six reportable operating segments based on management s organization of the enterprise into geographic areas United States, Canada, Europe, Australia, Brazil and the wholesale business from the United States and Europe managed as a separate global segment. During the quarter ended June 30, 2009, management identified its Brazil operating segment as a reportable segment due to management s increased focus on it as a separate market and operations. The Company has appropriately presented its Brazil segment for the current periods and prior periods presented. 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. Corporate assets, capital expenditures and property and equipment-net are included in the United States segment, while corporate expenses are presented separately in Income (loss) from operations. 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):

	Successor Three Months Ended September 30, 2009	Predecessor Three Months Ended September 30, 2008
Net Revenue by Geographic Region		
United States	$ 36,960	$ 43,247
Canada	57,367	66,811
Europe		
United Kingdom	22,807	22,383
Germany		5,619
France	9,533	6,604
Spain	3,102	2,879
Italy	7,807	7,286
Belgium	1,790	1,928
Other	811	1,023
Total Europe	45,850	47,722
Australia	63,665	70,715
Brazil	4,105	2,761
Total	$ 207,947	$ 231,256
Net Revenue by Segment		
United States	$ 15,863	$ 21,038
Canada	57,367	66,811
Europe	13,376	15,916
Australia	63,665	70,715
Wholesale	53,571	54,015
Brazil	4,105	2,761
Total	$ 207,947	$ 231,256
Provision for Doubtful Accounts Receivable		
United States	$ 580	$ 901
Canada	548	1,015
Europe	221	128
Australia	998	875
Wholesale	165	271
Brazil	81	59
Total	$ 2,593	$ 3,249
Income from Operations		
United States	$ 721	$ 61
Canada	1,256	10,158
Europe	(1,425)	(1,500)
Australia	1,612	1,119
Wholesale	554	(441)
Brazil	177	(617)
Total From Operating Segments	2,895	8,780
Corporate	(2,275)	(1,644)

Total	$ 620	$ 7,136
Capital Expenditures		
United States	$ 196	$ 640
Canada	2,328	2,315
Europe	79	88
Australia	1,193	3,023
Brazil	90	91
Total	$ 3,886	$ 6,157

Table of Contents

	Successor Three Months Ended September 30, 2009	Predecessor Six Months Ended July 1, 2009	Predecessor Nine Months Ended September 30, 2008
Net Revenue by Geographic Region			
United States	$ 36,960	$ 78,060	$ 128,411
Canada	57,367	108,306	204,248
Europe			
United Kingdom	22,807	49,232	61,964
Germany		5	15,367
France	9,533	15,095	18,926
Spain	3,102	4,369	9,203
Italy	7,807	14,392	16,299
Belgium	1,790	3,376	6,211
Other	811	1,633	3,402
Total Europe	45,850	88,102	131,372
Australia	63,665	110,502	220,957
Brazil	4,105	6,246	7,599
Total	$ 207,947	$ 391,216	$ 692,587
Net Revenue by Segment			
United States	$ 15,863	$ 35,013	$ 66,616
Canada	57,367	108,306	204,248
Europe	13,376	26,667	48,605
Australia	63,665	110,502	220,783
Wholesale	53,571	104,482	144,736
Brazil	4,105	6,246	7,599
Total	$ 207,947	$ 391,216	$ 692,587
Provision for Doubtful Accounts Receivable			
United States	$ 580	$ 1,456	$ 2,069
Canada	548	1,106	1,892
Europe	221	210	527
Australia	998	1,738	3,103
Wholesale	165	516	828
Brazil	81	114	526
Total	$ 2,593	$ 5,140	$ 8,945
Income (Loss) from Operations			
United States	$ 721	$ 4,304	$ 2,670
Canada	1,256	18,738	33,523
Europe	(1,425)	(309)	(4,971)
Australia	1,612	10,123	8,930
Wholesale	554	1,372	(1,738)
Brazil	177	231	(582)
Total From Operating Segments	2,895	34,459	37,832
Corporate	(2,275)	(6,670)	(5,756)
Total	$ 620	$ 27,789	$ 32,076

Capital Expenditures			
United States	$ 196	$ 73	$ 1,206
Canada	2,328	3,127	7,638
Europe	79	174	769
Australia	1,193	1,997	10,928
Brazil	90	289	215
Total	$ 3,886	$ 5,660	$ 20,756

Table of Contents

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

	Successor September 30, 2009	Predecessor December 31, 2008
Property and Equipment Net		
United States	$ 13,602	$ 15,590
Canada	57,108	44,234
Europe		
United Kingdom	4,472	5,965
Other	1,635	577
Total Europe	6,107	6,542
Australia	73,856	45,282
Brazil	1,355	504
Total	$ 152,028	$ 112,152

	Successor September 30, 2009	Predecessor December 31, 2008
Assets		
United States	$ 138,151	$ 28,230
Canada	209,323	121,105
Europe		
United Kingdom	30,334	23,597
Germany	541	2,710
France	8,625	6,326
Spain	3,916	2,170
Italy	9,985	9,301
Belgium	2,955	2,571
Other	32,113	28,521
Total Europe	88,469	75,196
Australia	139,004	101,650
Brazil	8,121	4,263
Total	$ 583,068	$ 330,444

The Company offers four main products retail voice, wholesale voice, data/Internet and VOIP. Net revenue information with respect to the Company s products is as follows (in thousands):

	Successor Three Months Ended September 30, 2009	Predecessor Three Months Ended September 30, 2008
Retail voice	$ 99,806	$ 117,874

Wholesale	53,571	54,015
Data/Internet	41,312	46,211
Retail VOIP	13,258	13,156
Total	$ 207,947	$ 231,256

37

Table of Contents

	Successor	Predecessor	
	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009	Nine Months Ended September 30, 2008
Retail voice	$ 99,806	$ 193,669	$ 365,342
Wholesale	53,571	104,482	144,736
Data/Internet	41,312	72,979	142,416
Retail VOIP	13,258	20,086	40,093
Total	$ 207,947	$ 391,216	$ 692,587

12. DISCONTINUED OPERATIONS

In the first quarter 2009, the Company sold certain assets of its Japan retail operations. The sale price was $0.4 million (40 million Japanese yen), which included $0.2 million (20 million Japanese yen) in cash and $0.2 million (20 million Japanese yen) receivable. The Company recorded a $0.3 million gain from sale of assets. The Company reported Japan retail operations as a discontinued operation.

In the second quarter 2008, the Company determined it would sell its German retail operations. However, buyers were not found; therefore the Company decided to cease operations of the German retail business during the first quarter of 2009.

As a result of these events, the Company s consolidated financial statements for all periods presented reflect the Japan retail operations and German retail operations as discontinued operations. 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 loss from discontinued operations.

Summarized operating results of the discontinued operations are as follows (in thousands):

	Successor Three Months Ended September 30, 2009	Predecessor Three Months Ended September 30, 2008
Net revenue	$	$ 907
Operating expenses		1,369
Loss from operations		(462)
Interest income and other income		27
Foreign currency transaction gain (loss)		(1)
Loss from discontinued operations	$	$ (436)

	Successor	Predecessor	
	Three Months Ended September 30, 2009	Six Months Ended July 1, 2009	Nine Months Ended September 30, 2008
Net revenue	$	$ 300	$ 3,113
Operating expenses		995	3,677

Loss from operations		(695)		(564)
Interest income and other income		19		62
Loss from discontinued operations	$	$ (676)	$	(502)

Table of Contents

13. 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.

Successor

Potentially dilutive common shares for Successor include the dilutive effects of common shares issuable under the Successor s Management Compensation Plan, including stock options, stock warrants and restricted stock units, using the treasury stock method.

For Successor s three months ended September 30, 2009, the following could potentially dilute income per common share in the future but was excluded from the calculation of diluted income per common share due to its antidilutive effect:

0.9 million shares issuable upon exercise of stock options and RSUs under the Successor s Management Compensation Plan;

4.5 million shares issuable upon exercise of stock warrants; and

2.7 million shares issuable upon exercise of CVRs.

Predecessor

Potentially dilutive common shares for Predecessor primarily included the dilutive effects of common shares issuable under Predecessor s Equity Incentive Plan computed using the treasury stock method and the dilutive effects of shares issuable upon conversion of its 5% Exchangeable Senior Notes, the Step Up Convertible Subordinated Debentures, the 3 $^{3}/4$% Convertible Senior Notes and the 2000 Convertible Subordinated Debentures.

For the six months ended July 1, 2009, the following could potentially dilute income per common share in the future but was excluded from the calculation of diluted income per common share due to its antidilutive effect:

7.8 million shares issuable under the Predecessor s Equity Incentive Plan.

For the three months ended September 30, 2008, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effects:

8.0 million shares issuable upon exercise of stock options,

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

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

3.7 million shares issuable upon conversion of the 3 $^{3}/4$% Convertible Senior Notes.

For the nine months ended September 30, 2008, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effects:

8.0 million shares issuable upon exercise of stock options,

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

6.0 million shares issuable upon conversion of the 3 $^{3}/4$% Convertible Senior Notes.

Table of Contents

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

		Predecessor	
	Six Months Ended July 1, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Income from continuing operations	$ 471,579	$ (32,784)	$ 10,807
Loss from discontinuing operations, net of tax	(676)	(436)	(502)
Gain from sale of discontinued operations, net of tax	251		
Net income attributable to common stockholders basic	471,154	(32,220)	10,305
Adjustment for interest expense on Step Up Convertible Subordinated Debentures	210		
Adjustment for interest expense on 3 3/4% Convertible Senior Notes	332		
Income attributable to common stockholders diluted	$ 471,696	$ (32,220)	$ 10,305
Weighted average common shares outstanding basic	142,695	142,633	142,633
5% Exchangeable Senior Notes	19,474		33,505
Step Up Convertible Subordinated Debentures	7,280		
3 3/4% Convertible Senior Notes	3,668		
Weighted average common shares outstanding diluted	173,117	142,633	176,138
Basic income per common share:			
Income from continuing operations attributable to common stockholders	$ 3.30	$ (0.23)	$ 0.07
Loss from discontinued operations	(0.00)	(0.00)	(0.00)
Gain from sale of discontinued operations	0.00		
Net income attributable to common stockholders	$ 3.30	$ (0.23)	$ (0.07)
Diluted income per common share:			
Income from continuing operations attributable to common stockholders	$ 2.72	$ (0.23)	$ 0.06
Loss from discontinued operations	(0.00)	(0.00)	(0.00)
Gain from sale of discontinued operations	0.00		
Net income attributable to common stockholders	$ 2.72	$ (0.23)	$ 0.06

14. REORGANIZATION ITEMS, NET

Reorganization items, net, represents amounts incurred as a direct result of the Chapter 11 filings and is presented separately in the Consolidated Condensed Statements of Operations. The following describes the components of reorganization items, net (in thousands):

	Successor Three Months Ended	Predecessor Six Months Ended

	September 30, 2009	July 1, 2009
Professional Fees	$ (307)	$ (12,067)
Gain on Extinguishment of debt		243,185
Revaluation of assets and liabilities		188,612
Debt Premium, Discount and Deferred Financing Costs Write-off		(91)
Reversal of Future Interest Payments Recorded as Long Term Obligations		20,453
Interest Income		2
Reorganization Items, net	$ (307)	$ 440,094

Table of Contents

Professional fees include financial, legal and other services directly associated with the reorganization process. Payment for reorganization expense for the three months ended September 30, 2009 were $6.1 million. Payments for reorganization expense for the six months ended July 1, 2009 were $4.6 million. In accordance with ASC No. 852, the Company ceased amortization of debt premiums, discounts and deferred financing costs related to the liabilities subject to compromise on the Petition Date. The $3.5 million of unamortized debt premiums and discounts have been written off and recorded as a gain, offset by the expensing of $3.6 million of unamortized deferred financing costs, as an adjustment to the net carrying value of the pre-petition debt. Long term debt was further reduced by $20.5 million of future interest payable that previously had been recorded as a portion of long-term obligations for the 14 1/4% Senior Secured Notes and 5% Exchangeable Senior Notes as the issuance of these notes had been deemed troubled debt restructurings. Upon emergence from bankruptcy, Predecessor debt in the amount of $439.6 million was written off along with the accrued interest related to this debt in the amount of $11.5 million. In addition, the Successor Company issued $123.5 million of new debt upon emergence.

15. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION
Consolidating Financial Statements for IHC Debt Issuance

Primus Telecommunications IHC, Inc. s 14 1/4% Senior Secured Notes were fully, unconditionally, jointly and severally guaranteed by Group on a senior basis and by Holding, Primus Telecommunications, Inc., TresCom International Inc., Least Cost Routing, Inc., TresCom U.S.A., Inc., iPRIMUS USA, Inc., and iPRIMUS.com, Inc., all 100% indirectly owned subsidiaries of Group (collectively, the Other Guarantors). Group has a 100% ownership in Holding and no direct subsidiaries other than Holding.

On the Effective Date, IHC, each of the Grantors party and U.S. Bank National Association, as collateral agent, entered into a First Amendment to the Collateral Agreement (the Amended Collateral Agreement), to provide that the obligations of both IHC and PTII, an indirect wholly owned subsidiary of Group, was secured by PTII s assets, including 65% of the voting stock of foreign subsidiaries owned by PTII. In addition, on the Effective Date, Group and Holding entered into an Assumption Agreement in favor of U.S. Bank National Association, as collateral agent, pursuant to which each of Group and Holding became party to the Amended Collateral Agreement. As a result, Group and Holding s existing guarantees of the Senior Subordinated Secured Notes are secured by a lien on the property of Group and Holding, respectively.

Accordingly, the following consolidating condensed financial information for the three months ended September 30, 2009 for Successor and for the six months ended July 1, 2009, and three months and nine months ended September 30, 2008 are included for (a) Group 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) Group s indirect non-guarantor subsidiaries on a combined basis and (e) Group on a consolidated basis. The plan and fresh-start accounting adjustments reflected in Predecessor s Consolidated Condensed Statements of Operations on July 1, 2009 are not presented separately in this presentation.

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)

	Successor For the Three Months Ended September 30, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 31,287	$ 176,660	$	$ 207,947
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			25,260	110,816		136,076
Selling, general and administrative	612	1	6,428	44,098		51,139
Depreciation and amortization			1,541	18,488		20,029
Loss on sale or disposal of assets			11	72		83
Total operating expenses	612	1	33,240	173,474		207,327
INCOME (LOSS) FROM OPERATIONS	(612)	(1)	(1,953)	3,186		620
INTEREST EXPENSE		(4,399)	(3,121)	(1,243)		(8,763)
INTEREST INCOME AND OTHER INCOME (EXPENSE)	(4,230)			164		(4,066)
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(2)	6,282	2	(10,729)		(4,447)
INTERCOMPANY INTEREST	(2,114)	7,507	(4,446)	(947)		
MANAGEMENT FEE			984	(984)		
ROYALTY FEE		3,134		(3,134)		
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(6,958)	12,523	(8,534)	(13,687)		(16,656)
REORGANIZATION ITEMS NET	(413)		106			(307)
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES	(7,371)	12,523	(8,428)	(13,687)		(16,963)
INCOME TAX EXPENSE		441	236	1,408		2,085
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(7,371)	12,964	(8,192)	(12,279)		(14,878)
EQUITY IN NET INCOME OF SUBSIDIARIES	(7,827)		300		7,527	
INCOME FROM CONTINUING OPERATIONS	(15,198)	12,964	(7,892)	(12,279)	7,527	(14,878)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax				(110)		(110)
NET INCOME (LOSS)	(15,198)	12,964	(7,892)	(12,389)	7,527	(14,988)
Less: Net loss attributable to the noncontrolling interest				(210)		(210)
NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED	$ (15,198)	$ 12,964	$ (7,892)	$ (12,599)	$ 7,527	$ (15,198)

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED						
Income (loss) from continuing operations, net of tax	$ (15,198)	$ 12,964	$ (7,892)	$ (12,489)	$ 7,527	$ (15,088)
Loss from sale of discontinued operations				(110)		(110)
Net income (loss)	$ (15,198)	$ 12,964	$ (7,892)	$ (12,599)	$ 7,527	$ (15,198)

42

Table of Contents

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	Predecessor For the Six Months Ended July 1, 2009					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 65,361	$ 325,855	$	$ 391,216
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			52,058	203,230		255,288
Selling, general and administrative	4,638	23	12,587	78,588		95,836
Depreciation and amortization			1,317	11,029		12,346
(Gain) loss on sale or disposal of assets			(177)	134		(43)
Total operating expenses	4,638	23	65,785	292,981		363,427
INCOME (LOSS) FROM OPERATIONS	(4,638)	(23)	(424)	32,874		27,789
INTEREST EXPENSE	(794)	(3,331)	(7,867)	(2,143)		(14,135)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(129)	318				189
INTEREST AND OTHER INCOME			8	388		396
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	2,632	8,349	(705)	10,845		21,121
INTERCOMPANY INTEREST	(4,169)	14,549	(8,764)	(1,616)		
MANAGEMENT FEE			4,152	(4,152)		
ROYALTY FEE		5,277		(5,277)		
INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(7,098)	25,139	(13,600)	30,919		35,360
REORGANIZATION ITEMS NET	(34,650)	79,592	286,279	108,873		440,094
INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES						