

PRIMUS TELECOMMUNICATIONS GROUP INC  
Form 10-Q/A  
February 02, 2010  
[Table of Contents](#)

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q/A

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

For the quarterly period ended June 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**  
(State or other jurisdiction of

**54-1708481**  
(I.R.S. Employer Identification No.)

incorporation or organization)

**7901 Jones Branch Drive, Suite 900,**

**McLean, VA**  
(Address of principal executive offices)

**22102**  
(Zip Code)

**(703) 902-2800**

(Registrant's telephone number, including area code)

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

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and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 ☒ 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 ☒

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

| Class                          |
|--------------------------------|
| Common Stock \$0.001 par value |

| Outstanding as of July 31, 2009 |
|---------------------------------|
| 9,600,000                       |

**Table of Contents**

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**(Debtor-in-Possession)**

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

|                                                                                                      | <b>Page No.</b> |
|------------------------------------------------------------------------------------------------------|-----------------|
| Part I. FINANCIAL INFORMATION                                                                        |                 |
| Item 1. FINANCIAL STATEMENTS (UNAUDITED)                                                             |                 |
| <u>Consolidated Condensed Statements of Operations</u>                                               | 1               |
| <u>Consolidated Condensed Balance Sheets</u>                                                         | 2               |
| <u>Consolidated Condensed Statements of Cash Flows</u>                                               | 3               |
| <u>Consolidated Condensed Statements of Comprehensive Income (Loss)</u>                              | 4               |
| <u>Notes to Consolidated Condensed Financial Statements</u>                                          | 5               |
| Item 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 65              |
| Item 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                            | 84              |
| Item 4. <u>CONTROLS AND PROCEDURES</u>                                                               | 85              |
| Part II. OTHER INFORMATION                                                                           |                 |
| Item 1. <u>LEGAL PROCEEDINGS</u>                                                                     | 87              |
| Item 1A. <u>RISK FACTORS</u>                                                                         | 87              |
| Item 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>                           | 98              |
| Item 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>                                                       | 98              |
| Item 4. <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>                                   | 98              |
| Item 5. <u>OTHER INFORMATION</u>                                                                     | 98              |
| Item 6. <u>EXHIBITS</u>                                                                              | 98              |
| <u>SIGNATURES</u>                                                                                    | 99              |
| <u>EXHIBIT INDEX</u>                                                                                 | 100             |

**Table of Contents**

**Explanatory Note**

This Quarterly Report on Form 10-Q/A is being filed in order to furnish Exhibit 32 with a corrected date reference within Paragraph 1.

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS****(in thousands, except per share amounts)****(unaudited)**

|                                                                                                                                                 | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|-------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                                                                                                                                 | <b>2009</b>                        | <b>2008</b> | <b>2009</b>                      | <b>2008</b> |
| NET REVENUE                                                                                                                                     | \$ 196,742                         | \$ 235,897  | \$ 391,216                       | \$ 461,331  |
| OPERATING EXPENSES                                                                                                                              |                                    |             |                                  |             |
| Cost of revenue (exclusive of depreciation included below)                                                                                      | 125,914                            | 142,495     | 255,288                          | 283,979     |
| Selling, general and administrative                                                                                                             | 50,400                             | 69,969      | 95,836                           | 138,827     |
| Depreciation and amortization                                                                                                                   | 6,250                              | 8,091       | 12,346                           | 16,050      |
| (Gain) loss on sale or disposal of assets                                                                                                       | 16                                 | 115         | (43)                             | (2,465)     |
| Total operating expenses                                                                                                                        | 182,580                            | 220,670     | 363,427                          | 436,391     |
| INCOME FROM OPERATIONS                                                                                                                          | 14,162                             | 15,227      | 27,789                           | 24,940      |
| INTEREST EXPENSE (contractual interest expense for the three months and six months ended June 30, 2009 was \$11,986 and \$24,201, respectively) | (3,359)                            | (13,554)    | (14,135)                         | (28,747)    |
| ACCRETION ON DEBT DISCOUNT, net                                                                                                                 |                                    | 217         | 189                              | 187         |
| GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT                                                                                           |                                    | 32,177      |                                  | 34,487      |
| INTEREST AND OTHER INCOME                                                                                                                       | 161                                | 2,127       | 396                              | 3,189       |
| FOREIGN CURRENCY TRANSACTION GAIN                                                                                                               | 24,170                             | 8,134       | 21,121                           | 9,841       |
| INCOME FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS AND INCOME TAXES                                                                  | 35,134                             | 44,328      | 35,360                           | 43,897      |
| REORGANIZATION ITEMS, net                                                                                                                       | (8,271)                            |             | 8,297                            |             |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES                                                                                           | 26,863                             | 44,328      | 43,657                           | 43,897      |
| INCOME TAX BENEFIT (EXPENSE)                                                                                                                    | (1,110)                            | 2,382       | (3,907)                          | (38)        |
| INCOME FROM CONTINUING OPERATIONS                                                                                                               | 25,753                             | 46,710      | 39,750                           | 43,859      |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                                                                                                   | (283)                              | (21)        | (676)                            | (66)        |
| GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax                                                                                           |                                    |             | 251                              |             |
| NET INCOME                                                                                                                                      | 25,470                             | 46,689      | 39,325                           | 43,793      |
| Less: Net (income) loss attributable to the noncontrolling interest                                                                             | (104)                              | (165)       | 32                               | (268)       |
| NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED                                                                        | \$ 25,366                          | \$ 46,524   | \$ 39,357                        | \$ 43,525   |
| BASIC INCOME PER COMMON SHARE:                                                                                                                  |                                    |             |                                  |             |
| Income from continuing operations attributable to Primus Telecommunications Group, Incorporated                                                 | \$ 0.18                            | \$ 0.33     | \$ 0.28                          | \$ 0.31     |
| Loss from discontinued operations                                                                                                               | (0.00)                             | (0.00)      | (0.00)                           | (0.00)      |
| Gain from sale of discontinued operations                                                                                                       |                                    |             | 0.00                             |             |
| Net income attributable to Primus Telecommunications Group, Incorporated                                                                        | \$ 0.18                            | \$ 0.33     | \$ 0.28                          | \$ 0.31     |
| DILUTED INCOME PER COMMON SHARE:                                                                                                                |                                    |             |                                  |             |
| Income from continuing operations attributable to Primus Telecommunications Group, Incorporated                                                 | \$ 0.15                            | \$ 0.25     | \$ 0.23                          | \$ 0.23     |

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|                                                                                                 |           |           |           |           |
|-------------------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|
| Loss from discontinued operations                                                               | (0.00)    | (0.00)    | (0.00)    | (0.00)    |
| Gain from sale of discontinued operations                                                       |           |           | 0.00      |           |
| Net income attributable to Primus Telecommunications Group, Incorporated                        | \$ 0.15   | \$ 0.25   | \$ 0.23   | \$ 0.23   |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING                                                      |           |           |           |           |
| Basic                                                                                           | 142,695   | 142,633   | 142,695   | 142,633   |
| Diluted                                                                                         | 173,117   | 190,328   | 173,117   | 195,221   |
| AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF<br>PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED |           |           |           |           |
| Income from continuing operations, net of tax                                                   | \$ 25,649 | \$ 46,545 | \$ 39,782 | \$ 43,591 |
| Loss from discontinued operations                                                               | (283)     | (21)      | (676)     | (66)      |
| Gain from sale of discontinued operations                                                       |           |           | 251       |           |
| Net income                                                                                      | \$ 25,366 | \$ 46,524 | \$ 39,357 | \$ 43,525 |

See notes to consolidated financial statements.

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATED CONDENSED BALANCE SHEETS****(in thousands, except share amounts)****(unaudited)**

|                                                                                                | <b>June 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|------------------------------------------------------------------------------------------------|--------------------------|------------------------------|
| <b>ASSETS</b>                                                                                  |                          |                              |
| <b>CURRENT ASSETS:</b>                                                                         |                          |                              |
| Cash and cash equivalents                                                                      | \$ 41,461                | \$ 37,000                    |
| Accounts receivable (net of allowance for doubtful accounts receivable of \$9,095 and \$9,710) | 93,826                   | 99,483                       |
| Prepaid expenses and other current assets                                                      | 16,955                   | 15,846                       |
| Total current assets                                                                           | 152,242                  | 152,329                      |
| RESTRICTED CASH                                                                                | 9,467                    | 8,133                        |
| PROPERTY AND EQUIPMENT Net                                                                     | 117,840                  | 112,152                      |
| GOODWILL                                                                                       | 35,351                   | 32,688                       |
| OTHER INTANGIBLE ASSETS Net                                                                    | 482                      | 746                          |
| OTHER ASSETS                                                                                   | 19,155                   | 24,396                       |
| TOTAL ASSETS                                                                                   | \$ 334,537               | \$ 330,444                   |
| <b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>                                                    |                          |                              |
| <b>CURRENT LIABILITIES:</b>                                                                    |                          |                              |
| Accounts payable                                                                               | \$ 50,890                | \$ 58,671                    |
| Accrued interconnection costs                                                                  | 38,778                   | 41,422                       |
| Deferred revenue                                                                               | 12,322                   | 13,303                       |
| Accrued expenses and other current liabilities                                                 | 53,982                   | 42,440                       |
| Accrued income taxes                                                                           | 20,986                   | 18,213                       |
| Accrued interest                                                                               | 19                       | 10,248                       |
| Current portion of long-term obligations                                                       | 107,097                  | 564,797                      |
| Total current liabilities                                                                      | 284,074                  | 749,094                      |
| LONG-TERM OBLIGATIONS                                                                          | 25,740                   | 40,040                       |
| OTHER LIABILITIES                                                                              |                          | 35                           |
| Total liabilities not subject to compromise                                                    | 309,814                  | 789,169                      |
| LIABILITIES SUBJECT TO COMPROMISE                                                              | 451,050                  |                              |
| Total Liabilities                                                                              | 760,864                  | 789,169                      |

COMMITMENTS AND CONTINGENCIES (See Note 6.)

**STOCKHOLDERS DEFICIT:**

Primus Telecommunications Group, Incorporated Stockholders Deficit:

Preferred stock: Not Designated, \$0.01 par value 1,410,050 shares authorized; none issued and outstanding; Series A and B, \$0.01 par value 485,000 shares authorized; none issued and outstanding; Series C, \$0.01 par value 559,950 shares authorized; none issued and outstanding

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|                                                                                                         |                   |                   |
|---------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Common stock, \$0.01 par value 300,000,000 shares authorized; 142,695,390 shares issued and outstanding | 1,427             | 1,427             |
| Additional paid-in capital                                                                              | 718,983           | 718,956           |
| Accumulated deficit                                                                                     | (1,060,452)       | (1,099,809)       |
| Accumulated other comprehensive loss                                                                    | (89,216)          | (82,113)          |
| Total Primus Telecommunications Group, Incorporated stockholders' deficit                               | (429,258)         | (461,539)         |
| Noncontrolling interest                                                                                 | 2,931             | 2,814             |
| Total stockholders' deficit                                                                             | (426,327)         | (458,725)         |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>                                                      | <b>\$ 334,537</b> | <b>\$ 330,444</b> |

See notes to consolidated financial statements.

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

|                                                                                                                 | Six Months Ended June 30,<br>2009 | 2008      |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                    |                                   |           |
| Net income                                                                                                      | \$ 39,325                         | \$ 43,793 |
| Adjustments to reconcile net income to net cash provided by operating activities:                               |                                   |           |
| Reorganization items, net                                                                                       | (8,297)                           |           |
| Provision for doubtful accounts receivable                                                                      | 5,140                             | 5,696     |
| Stock compensation expense                                                                                      | 27                                | 132       |
| Depreciation and amortization                                                                                   | 12,346                            | 16,056    |
| Gain on sale or disposal of assets                                                                              | (294)                             | (2,465)   |
| Accretion of debt discount                                                                                      | (189)                             | (187)     |
| Deferred income taxes                                                                                           |                                   | 2,845     |
| Gain on early extinguishment or restructuring of debt                                                           |                                   | (34,487)  |
| Unrealized foreign currency transaction gain on intercompany and foreign debt                                   | (20,702)                          | (9,628)   |
| Changes in assets and liabilities, net of acquisitions:                                                         |                                   |           |
| (Increase) decrease in accounts receivable                                                                      | 7,798                             | (6,388)   |
| Decrease in prepaid expenses and other current assets                                                           | 461                               | 11,234    |
| Decrease in other assets                                                                                        | 2,454                             | 905       |
| Decrease in accounts payable                                                                                    | (12,794)                          | (16,639)  |
| Increase (decrease) in accrued interconnection costs                                                            | (5,361)                           | 3,159     |
| Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net | 1,313                             | (3,347)   |
| Increase (decrease) in accrued income taxes                                                                     | 2,113                             | (4,455)   |
| Decrease in accrued interest                                                                                    | (1,600)                           | (921)     |
| Net cash provided by operating activities before cash reorganization items                                      | 21,740                            | 5,303     |
| Cash effect of reorganization items                                                                             | (4,595)                           |           |
| Net cash provided by operating activities                                                                       | 17,145                            | 5,303     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                    |                                   |           |
| Purchase of property and equipment                                                                              | (5,660)                           | (14,599)  |
| Sale of property and equipment                                                                                  | 179                               | 805       |
| Cash from disposition of business, net of cash disposed                                                         | 232                               | 1,676     |
| Cash used in business acquisitions, net of cash acquired                                                        | (199)                             | (34)      |
| (Increase) decrease in restricted cash                                                                          | (146)                             | 103       |
| Net cash used in investing activities                                                                           | (5,594)                           | (12,049)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                    |                                   |           |
| Purchase of the Company's debt securities                                                                       |                                   | (11,217)  |
| Principal payments on long-term obligations                                                                     | (8,292)                           | (8,287)   |
| Net cash used in financing activities                                                                           | (8,292)                           | (19,504)  |

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|                                                                         |           |              |
|-------------------------------------------------------------------------|-----------|--------------|
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS           | 1,202     | 518          |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                                 | 4,461     | (25,732)     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                          | 37,000    | 81,282       |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                                | \$ 41,461 | \$ 55,550    |
| SUPPLEMENTAL CASH FLOW INFORMATION:                                     |           |              |
| Cash paid for interest                                                  | \$ 14,909 | \$ 28,440    |
| Cash paid for taxes                                                     | \$ 962    | \$ 469       |
| Non-cash investing and financing activities:                            |           |              |
| Capital lease additions                                                 | \$ 1,882  | \$ 35        |
| 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    |

See notes to consolidated financial statements.

**Table of Contents**

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**(Debtor-In-Possession)**

**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

**(in thousands)**

**(unaudited)**

|                                                                                       | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|---------------------------------------------------------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                                                                       | <b>2009</b>                        | <b>2008</b> | <b>2009</b>                      | <b>2008</b> |
| NET INCOME                                                                            | \$ 25,470                          | \$ 46,689   | \$ 39,325                        | \$ 43,793   |
| OTHER COMPREHENSIVE LOSS                                                              |                                    |             |                                  |             |
| Foreign currency translation adjustment                                               | (8,426)                            | (3,011)     | (6,954)                          | (4,073)     |
| COMPREHENSIVE INCOME                                                                  | 17,044                             | 43,678      | 32,371                           | 39,720      |
| Comprehensive loss attributable to the noncontrolling interest                        | (319)                              | (175)       | (117)                            | (243)       |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO PRIMUS<br>TELECOMMUNICATIONS GROUP, INCORPORATED | \$ 16,725                          | \$ 43,503   | \$ 32,254                        | \$ 39,477   |

See notes to consolidated financial statements.

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**Table of Contents**

**PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED**

**(Debtor-In-Possession)**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. PROCEEDINGS 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<sup>1</sup>/<sub>4</sub>% 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<sup>1</sup>/<sub>4</sub>% Senior Subordinated Secured Notes due May 20, 2013 (see *Amendment of IHC's 14<sup>1</sup>/<sub>4</sub>% 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;

## Table of Contents

the 3<sup>3</sup>/<sub>4</sub> % Senior Notes due September 2010, 12<sup>3</sup>/<sub>4</sub>% 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, 400,000 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<br>Reorganization<br>Adjustments | Successor         |
|------------------------------------------------|-------------------|------------------------------------------|-------------------|
| <b>Long-Term Obligations</b>                   |                   |                                          |                   |
| 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           |
| <b>Subtotal</b>                                | <b>132,837</b>    | <b>123,472</b>                           | <b>256,309</b>    |
| Less: Current portion of long-term obligations | (107,097)         | 91,100                                   | (15,997)          |
| <b>Total long-term obligations</b>             | <b>\$ 25,740</b>  | <b>\$ 214,572</b>                        | <b>\$ 240,312</b> |
| <b>Liabilities Subject to Compromise</b>       |                   |                                          |                   |
| 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)                                 |                   |
| <b>Total liabilities subject to compromise</b> | <b>\$ 451,050</b> | <b>\$ (451,050)</b>                      | <b>\$</b>         |

## Table of Contents

The following table reflects the contractual payments of principal and interest for all long-term obligations after giving effect to the July 1, 2009 emergence from bankruptcy.

| Year Ending December 31,                    | Vendor<br>Financing<br>and Other | Senior Secured<br>Term Loan<br>Facility (1) | Canadian<br>Credit<br>Facility (2) | Senior Secured<br>Subordinated<br>Notes | Total      |
|---------------------------------------------|----------------------------------|---------------------------------------------|------------------------------------|-----------------------------------------|------------|
| 2009 (as of June 30, 2009)                  | \$ 1,888                         | \$ 7,694                                    | \$ 4,011                           | \$ 7,331                                | \$ 20,924  |
| 2010                                        | 5,151                            | 16,767                                      | 7,685                              | 17,595                                  | 47,198     |
| 2011                                        | 1,068                            | 89,713                                      | 21,036                             | 17,595                                  | 129,412    |
| 2012                                        | 257                              |                                             |                                    | 17,595                                  | 17,852     |
| 2013                                        | 64                               |                                             |                                    | 131,731                                 | 131,795    |
| Thereafter                                  | 33                               |                                             |                                    |                                         | 33         |
| Total Minimum Principal & Interest Payments | 8,461                            | 114,174                                     | 32,732                             | 191,847                                 | 347,214    |
| Less: Amount Representing Interest          | (874)                            | (18,424)                                    | (3,232)                            | (68,375)                                | (90,905)   |
| Total Long-Term Obligation                  | \$ 7,587                         | \$ 95,750                                   | \$ 29,500                          | \$ 123,472                              | \$ 256,309 |

(1) For preparation of this table, the Company has assumed the interest rate of the Senior Secured Term Loan Facility to be 12.0% and principal payments as according to the Term Loan Modification Term Sheet.

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

Notwithstanding confirmation 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 principal of the Senior Secured Term Loan Facility and the 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.

## 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. All of the terms in the Term Loan Modification Term Sheet, as described in Note 5 Long-Term Obligations and Liabilities Subject to Compromise, were accepted and included in the Amended Term Loan with the exception of certain interest rate terms that are described below in item (i). 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

## **Table of Contents**

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%~~ 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 "Modified Second Lien 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 Modified Second Lien 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 Modified Second Lien 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 Modified Second Lien 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 Modified Second Lien 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

## **Table of Contents**

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.

### *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

## **Table of Contents**

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 data is available to confirm that Group's adjusted EBITDA for the immediately preceding four fiscal quarters is equal to at least \$100 million, 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.

*Current Impact on Group's Subsidiaries that have not sought Reorganization.* Group's subsidiaries other than Holding, IHC and PTII are 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 have been unaffected by the filing of the Chapter 11 Cases.

## **Table of Contents**

### **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 three months and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

In accordance with Statement of Position (SOP) No. 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, all pre-petition liabilities subject to compromise are 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 are separately classified as current and non-current in the unaudited Consolidated Condensed Balance Sheet as of June 30, 2009. Revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization are reported separately as reorganization items, net, in the unaudited Consolidated Condensed Statements of Operations for the three months and six months ended June 30, 2009. Net cash used for reorganization items is disclosed separately in the unaudited Consolidated Condensed Statements of Cash Flows. The outcome of the plan of reorganization could materially change the amounts reported in the financial statements, which do not give effect to all adjustments of the carrying value of assets or liabilities that might be necessary as a consequence of the plan, or the effect of any operational changes that may be made in the business.

After the emergence from bankruptcy on July 1, 2009, the amounts reported in the Company's subsequent financial statements may materially change. The Company will be required to adopt the fresh start provisions of SOP No. 90-7 in the third quarter 2009, which requires that all assets and liabilities be restated to their fair value. Certain of these fair values may differ materially from the values recorded on the accompanying Consolidated Condensed Balance Sheets. Additionally, the Company must also adopt any changes in generally accepted accounting principles (GAAP) that it is otherwise required to adopt within twelve months of such date. Furthermore, it may opt to make other changes in accounting principles and policies upon adoption of fresh start. For all of these reasons, the Company's financial statements for periods subsequent to July 1, 2009, the Effective Date of the emergence from bankruptcy, will not be comparable to previous periods.

The results for the three months and six months ended June 30, 2009 reflect the activities of certain operations as discontinued operations (see Note 10 Discontinued Operations ).

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

### **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 Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 (R), Consolidation of Variable Interest Entities-an Interpretation of Accounting Research Bulletins (ARB) No. 51. 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

## Table of Contents

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 during the first quarter of 2009.

Effective January 1, 2009, the Company adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51, Consolidated Financial Statements. This statement changes the presentation of outstanding noncontrolling interests in one or more subsidiaries or the deconsolidation of those subsidiaries. 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 FIN No. 46 (R). 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 (in thousands) for the six months ended June 30, 2008 and 2009 are as follows:

| As of June 30, 2008                           |              |                         |         |          |                                                  |                        |                                               |                            |
|-----------------------------------------------|--------------|-------------------------|---------|----------|--------------------------------------------------|------------------------|-----------------------------------------------|----------------------------|
| Primus Telecommunications Group, Incorporated |              |                         |         |          |                                                  |                        |                                               |                            |
| Shareholders                                  |              |                         |         |          |                                                  |                        |                                               |                            |
|                                               | Total        | Comprehensive<br>Income | Shares  | Amount   | Common Stock<br>Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>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             | 132          |                         |         |          | 132                                              |                        |                                               |                            |
| Comprehensive Income                          |              |                         |         |          |                                                  |                        |                                               |                            |
| Net income                                    | \$ 43,793    | \$ 43,793               |         |          |                                                  | 43,525                 |                                               | 268                        |
| Other comprehensive loss                      | (4,073)      | (4,073)                 |         |          |                                                  |                        | (4,048)                                       | (25)                       |
| Comprehensive Income                          | 39,720       | \$ 39,720               |         |          |                                                  |                        |                                               |                            |
| Balance as of June 30, 2008                   | \$ (406,849) |                         | 142,633 | \$ 1,426 | \$ 718,827                                       | \$ (1,031,253)         | \$ (96,931)                                   | \$ 1,082                   |

| As of June 30, 2009                           |              |                         |         |          |                                                  |                        |                                               |                            |
|-----------------------------------------------|--------------|-------------------------|---------|----------|--------------------------------------------------|------------------------|-----------------------------------------------|----------------------------|
| Primus Telecommunications Group, Incorporated |              |                         |         |          |                                                  |                        |                                               |                            |
| Shareholders                                  |              |                         |         |          |                                                  |                        |                                               |                            |
|                                               | Total        | Comprehensive<br>Income | Shares  | Amount   | Common Stock<br>Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>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)                                       | 149                        |
| 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                   |

*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).

**Table of Contents**

**Stock-Based Compensation** The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation under Statements of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payments, consistent with that used for pro forma disclosures under SFAS No. 123. The Black-Scholes model incorporates various assumptions including the expected term of awards, volatility of stock price, risk-free rates of return and dividend yield. The expected term of an award is no less than the option vesting period and is based on the Company's historical experience. Expected volatility is based upon the historical volatility of the Company's stock price. The risk-free interest rate is approximated using rates available on U.S. Treasury securities with a remaining term similar to the option's expected life. The Company uses a dividend yield of zero in the Black-Scholes option valuation model as it does not anticipate paying cash dividends in the foreseeable future.

The Company recorded an incremental \$11 thousand and \$27 thousand stock-based compensation expenses for the three months and six months ended June 30, 2009, respectively, and an incremental \$70 thousand and \$132 thousand stock-based compensation expenses for the three and six months ended June 30, 2008, respectively, under guidance in SFAS No. 123(R).

The Company granted 125,000 options during the three months ended June 30, 2008. No options were granted during the three months ended June 30, 2009. The weighted average fair value at date of grant for options granted during the three months ended June 30, 2008 was \$0.10 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:

|                                 | <b>For the Three Months<br/>Ended June 30,<br/>2008</b> |
|---------------------------------|---------------------------------------------------------|
| Expected dividend yield         | 0%                                                      |
| Expected stock price volatility | 96%                                                     |
| Risk-free interest rate         | 3.0%                                                    |
| Expected option term            | 4 years                                                 |

As of June 30, 2009, the Company had 0.9 million unvested awards outstanding of which \$0.1 million of compensation expense will be recognized over the weighted average remaining vesting period of 1.98 years. Under the Plan or Reorganization, as described in Note 1 *Voluntary Reorganization under Chapter 11* above, all outstanding options were cancelled upon the July 1, 2009 Plan Effective Date.

**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 SFAS No. 123(R), various tax contingencies, asset impairment write-downs, and purchase price allocations.

**Newly Adopted Accounting Principles**

Effective April 1, 2009, the Company adopted SFAS No. 165, Subsequent Events. SFAS No. 165 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. SFAS No. 165 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. Management has evaluated subsequent events through August 13, 2009, for this quarterly report on Form 10-Q, for the quarter ended June 30, 2009.

## **Table of Contents**

Effective January 1, 2009, the Company adopted FSP No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP No. 14-1 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. FSP No. 14-1 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 SFAS No. 141R, Business Combinations. SFAS No. 141R 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.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, Application of FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 1 and FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157. The provisions of SFAS No. 157, Fair Value Measurements, which 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. FSP 157-1 and FSP 157-2 collectively delayed the effective date of SFAS No. 157 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 SFAS No. 157. On January 1, 2009, the Company adopted the provisions of SFAS No. 157 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 June 30, 2009.

The valuation techniques required by SFAS No. 157 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 has 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 has estimated the value to be zero, requiring a write-off of \$1.2 million in the third quarter of 2008, and has moved the instrument from Level 2 to Level 3 because the counter party's credit risk is not observable.

## Table of Contents

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging* 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. SFAS No. 161 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. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, a replacement of SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which 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 provisions of SFAS No. 168 will be applied prospectively beginning in the third quarter of 2009. The Company anticipates that the adoption of this standard will not have a material impact on its results of operations, financial position and cash flows.

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. GOODWILL AND OTHER INTANGIBLE ASSETS

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

|                | As of June 30, 2009         |                             |                   | As of December 31, 2008     |                             |                   |
|----------------|-----------------------------|-----------------------------|-------------------|-----------------------------|-----------------------------|-------------------|
|                | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net Book<br>Value | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net Book<br>Value |
| Customer lists | \$ 4,229                    | \$ (3,806)                  | \$ 423            | \$ 3,806                    | \$ (3,150)                  | \$ 656            |
| Other          | 1,673                       | (1,614)                     | 59                | 1,665                       | (1,575)                     | 90                |
| <b>Total</b>   | <b>\$ 5,902</b>             | <b>\$ (5,420)</b>           | <b>\$ 482</b>     | <b>\$ 5,471</b>             | <b>\$ (4,725)</b>           | <b>\$ 746</b>     |

Amortization expense for customer lists and other intangible assets for the three months ended June 30, 2009 and 2008 was \$0.2 million and \$0.5 million, respectively. Amortization expense for customer lists and other intangible assets for the six months ended June 30, 2009 and 2008 was \$0.5 million and \$1.0 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the remainder of 2009 and the year ended December 31, 2010 and 2011 to be approximately \$0.1 million, \$0.2 million and \$0.1 million, respectively, excluding any potential changes to the intangible assets as a result of applying fresh start accounting as of July 1, 2009.

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

|          | As of<br>June 30,<br>2009 | As of<br>December 31,<br>2008 |
|----------|---------------------------|-------------------------------|
| Goodwill | \$ 35,351                 | \$ 32,688                     |



## Table of Contents

The changes in the carrying amount of goodwill for the six months ended June 30, 2009 are as follows (in thousands):

|                                                    | United States | Canada     | Asia-Pacific | Total      |
|----------------------------------------------------|---------------|------------|--------------|------------|
| Balance as of January 1, 2009                      |               |            |              |            |
| Gross Goodwill                                     | \$ 198,140    | \$ 102,777 | \$ 30,775    | \$ 331,692 |
| Accumulated impairment losses                      | (197,983)     | (80,864)   | (20,157)     | (299,004)  |
| Net Goodwill                                       | 157           | 21,913     | 10,618       | 32,688     |
| Effect of change in foreign currency exchange rate | 32            | 1,267      | 1,364        | 2,663      |
| Balance as of June 30, 2009                        |               |            |              |            |
| Gross Goodwill                                     | 198,172       | 104,044    | 32,139       | 334,355    |
| Accumulated impairment losses                      | (197,983)     | (80,864)   | (20,157)     | (299,004)  |
| Net Goodwill                                       | \$ 189        | \$ 23,180  | \$ 11,982    | \$ 35,351  |

## 5. LONG-TERM OBLIGATIONS AND LIABILITIES SUBJECT TO COMPROMISE

On March 16, 2009, the Company and certain holding company subsidiaries filed for voluntary reorganization under Chapter 11 (see Note 1 Proceedings Under Chapter 11 of The Bankruptcy Code ). The filings for bankruptcy constituted an event of default that triggered repayment obligations under a number of debt instruments. As a result of the event of default, all obligations under the affected debt agreements became automatically and immediately due and payable. Additionally, the filing of the Chapter 11 Cases constituted an event of default through a cross default provision of the Canadian Credit Facility (as defined below); however a waiver of that default provision was obtained from the lender as described under the Canadian Credit Facility below. Certain other vendor and capital lease obligations are not in default because they are held in operating companies that were not part of the bankruptcy filings.

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

|                                                | June 30,<br>2009 | December 31,<br>2008 |
|------------------------------------------------|------------------|----------------------|
| Obligations under capital leases and other     | \$ 5,056         | \$ 4,851             |
| Leased fiber capacity                          | 2,531            | 2,172                |
| Senior secured term loan facility              | 95,750           | 96,250               |
| Canadian credit facility                       | 29,500           | 35,000               |
| Senior notes*                                  |                  | 200,186              |
| Senior secured notes*                          |                  | 198,960              |
| Exchangeable senior notes*                     |                  | 25,122               |
| Convertible senior notes*                      |                  | 34,006               |
| Step up convertible subordinated debentures*   |                  | 8,290                |
| Subtotal                                       | 132,837          | 604,837              |
| Less: Current portion of long-term obligations | (107,097)        | (564,797)            |
| Total long-term obligations                    | \$ 25,740        | \$ 40,040            |

\* As of June 30, 2009, certain liabilities are subject to compromise as part of the Plan and are classified as liabilities subject to compromise as described below.



**Table of Contents**

The following table reflects the contractual payments of principal and interest for all long-term obligations as of June 30, 2009 as follows (note this table only represents liabilities that are not subject to compromise as described below):

| Year Ending December 31,                    | Vendor<br>Financing and<br>Other | Senior Secured<br>Term Loan<br>Facility (1) | Canadian<br>Credit<br>Facility (2) | Total      |
|---------------------------------------------|----------------------------------|---------------------------------------------|------------------------------------|------------|
| 2009 (as of June 30, 2009)                  | \$ 1,888                         | \$ 7,694                                    | \$ 4,011                           | \$ 13,593  |
| 2010                                        | 5,151                            | 16,767                                      | 7,685                              | 29,603     |
| 2011                                        | 1,068                            | 89,713                                      | 21,036                             | 111,817    |
| 2012                                        | 257                              |                                             |                                    | 257        |
| 2013                                        | 64                               |                                             |                                    | 64         |
| Thereafter                                  | 33                               |                                             |                                    | 33         |
| Total Minimum Principal & Interest Payments | 8,461                            | 114,174                                     | 32,732                             | 155,367    |
| Less: Amount Representing Interest          | (874)                            | (18,424)                                    | (3,232)                            | (22,530)   |
| Total Long Term Obligations                 | \$ 7,587                         | \$ 95,750                                   | \$ 29,500                          | \$ 132,837 |

(1) For preparation of this table, the Company has assumed the interest rate of the Senior Secured Term Loan Facility to be 12.0% and principal payments as according to the Term Loan Modification Term Sheet.

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

**Liabilities Subject to Compromise**

Under bankruptcy law, actions by creditors to collect upon liabilities of the Debtors incurred prior to the Petition Date are stayed and certain other pre-petition contractual obligations may not be enforced against the Debtors without approval of the Court. In accordance with SOP No. 90-7, these liabilities are adjusted to the amount of the allowed claim by the court and are classified as liabilities subject to compromise in the Consolidated Condensed Balance Sheet as of June 30, 2009, which are different than the prepetition amounts originally recorded on the financial statements due to certain debt premiums, discounts and future interest payments recorded as long-term obligations that were written off during quarter ended March 31, 2009. See Note 12 Reorganization Items, Net. Adjustments to the claims may result from negotiations, payments authorized by Court order or other events. It is anticipated that such adjustments, if any, could be material. Any payment terms established for the liabilities subject to compromise will be established in connection with actual confirmation of the plan of reorganization. See Note 1

Proceedings Under Chapter 11 of the Bankruptcy Code. Liabilities subject to compromise are classified separately from long-term obligations and current liabilities.

The following table summarizes the components of liabilities subject to compromise in the Consolidated Condensed Balance Sheet as of June 30, 2009 (in thousands):

|                                                       |            |
|-------------------------------------------------------|------------|
| 8% Senior Notes of Holding due January 2014           | \$ 186,000 |
| 14 1/4% Senior Secured Notes of IHC due May 2011      | 173,157    |
| 3 3/4% Convertible Notes of Group due September 2010  | 34,200     |
| 5% Exchangeable Senior Notes of Holding due June 2010 | 23,369     |
| 12 3/4% Senior Notes of Group due October 2009        | 14,186     |
| Step Up Convertible Subordinated Debentures           | 8,641      |
| Accrued Interest                                      | 11,497     |
| Liabilities Subject to Compromise                     | \$ 451,050 |



## **Table of Contents**

### **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%.

The debt under the Facility is in default as a result of the bankruptcy filings on March 16, 2009. It is classified as current portion of long-term obligations on the balance sheet at June 30, 2009.

On April 14, 2009, Holding and certain affiliates who are party to the Term Loan (collectively, the Primus Term Loan Parties ) agreed to a term sheet with a group of lenders under the Term Loan (the Term Loan Ad Hoc Committee ) which comprised a requisite number to support and consent to an amendment to the Term Loan as part of the Company's Plan of Reorganization (the Term Loan Modification Term Sheet ) and executed a forbearance agreement, as discussed below, whereby the Term Loan lenders have agreed to forbear from exercising rights and remedies related to certain defaults and events of default under the Term Loan (including events related to the Chapter 11 Cases and Reorganization) subject to the terms and conditions described below. The Term Loan Modification Term Sheet contemplates a waiver of defaults and events of default under the Term Loan, including those arising out of the Chapter 11 Cases and the Reorganization, subject to the satisfaction of certain conditions precedent to executing an amendment to the Term Loan and Plan confirmation accepting the amendment reflecting the Term Loan Modification Term Sheet.

*Term Loan Modification Term Sheet.* The Term Loan Modification Term Sheet was not an effective amendment to the Term Loan, but instead reflected an agreement in principle with the Term Loan Ad Hoc Committee. The Company finalized the terms of an amendment to the Term Loan, based on the terms set forth in the Term Loan Modification Term Sheet, with the Term Loan Ad Hoc Committee and a replacement administrative agent and included such amendment in the Company's Plan of Reorganization, which was approved by the Bankruptcy Court and the creditors in the Chapter 11 Cases. See Note 1 Proceedings Under Chapter 11 of the Bankruptcy Code.

The Term Loan Modification Term Sheet is subject to a number of conditions precedent, including the following:

the release of Lehman Commercial Paper Inc. ( LCPI ) as Administrative Agent and the appointment of a replacement Administrative Agent;

## Table of Contents

the bring-down of certain representations and warranties under the Term Loan agreement (excluding no default and bankruptcy representations and warranties);

an accounting of borrowers' and guarantors' intercompany receivables and payables; and

delivery of certain account control agreements and officer certificates.

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

| Payment Date       | Principal<br>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  | Remaining Outstanding       |
|                    | Principal                   |

On March 31, 2009 and June 30, 2009, principal payments of \$250,000 were paid as required under the Term Loan Modification Term Sheet.

The Term Loan Modification Term Sheet provides for an interest rate feature consisting of (i) a cash payment of LIBOR + 9.00% with a LIBOR floor of 3.00% or (ii) a cash payment of LIBOR + 7.00% with a LIBOR floor of 3.00% and 4.00% in a payment in kind (PIK), with such interest rate option selected at Holding's option with notice 30 days prior to each interest payment date. Certain of these interest terms were amended in connection with confirmation of the Plan. See Note 1 - Proceedings Under Chapter 11 of the Bankruptcy Code.

The Term Loan Modification Term Sheet provides for:

the replacement of LCPI as Administrative Agent under the Term Loan, with a replacement agent reasonably acceptable to the Company and the Term Loan lenders;

first priority liens in all of the Collateral, except for permitted liens, with the same collateral basket as the Term Loan, subject to exceptions for certain specified account control agreements;

mandatory prepayments from (1) 25% of the proceeds of certain equity issuances (including 25% of the cash of businesses acquired in exchange for equity), (2) proceeds from debt issuances (other than as permitted under the limitation of indebtedness covenant), and (3) 80% of net cash proceeds from asset sales or insurance recoveries not otherwise reinvested in the business as provided thereunder; and

the ability of Holding to purchase annually up to \$5 million in principal amount of Term Loans by Group or its affiliates at less than par in negotiated transactions without being subject to the pro-rata provisions (or purchases in excess of such annual amount by way of an offer to all holders of Loans) and the obligation to cancel Term Loans purchased by Group or its affiliates (without voting

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rights in respect of such acquired Term Loans).

The Term Loan Modification Term Sheet 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 currently outstanding);

## **Table of Contents**

- (b) an additional unsecured debt basket of up to an aggregate dollar cap of \$7.5 million;
- (c) debt to finance acquisitions, which would be 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 Term Loan Modification Term Sheet 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 retirement for value of any debt, including but not limited to any of the 14 1/4% Senior 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 is to contain customary restrictions, including, but not limited to, a cap of \$1 million;

modification of the limitation on liens covenant to delete the incurrence test and expressly prohibit any liens other than permitted liens;

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

The Term Loan Modification Term Sheet 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);

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 shall be 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 shall be \$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 will be required to be maintained at all times following substantial consummation of the plan of

reorganization; and

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

## **Table of Contents**

*Forbearance Agreement.* On April 14, 2009, the Primus Term Loan Parties and certain lenders under the Term Loan (the *Required Lenders* ) entered into a Forbearance Agreement (the *Term Loan Forbearance Agreement* ).

Subject to the terms and conditions of this Agreement, the Required Lenders agreed to forbear and to direct the Administrative Agent to forbear from exercising any or all of their respective rights and remedies under the Term Loan documents in respect of the forbearance defaults and covenants, including rights associated with defaults or events of default as a result of, arising in connection with, or related to the filing of petitions by the Debtors in connection with the Reorganization ( *Forbearance* ).

While the Required Lenders agreed to forbear enforcement of and waive the forbearance defaults and covenants, subject to the terms of the Term Loan Forbearance Agreement, such forbearance nonetheless was subject to termination for the following failures that occur on or before the date listed below, or such later date as mutually agreed upon by the Debtors and the required Lenders:

| <b>Failure Event</b>                                                                                                                                                                                                                                        | <b>Trigger Date</b>            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| Failure of Debtors to file amended plan of reorganization with treatment set forth in Term Loan Modification Term Sheet ( <i>Amended Plan</i> ) and amended disclosure statement ( <i>Amended Disclosure Statement</i> ) with Bankruptcy Court on or before | April 20, 2009                 |
| Failure of Bankruptcy Court to enter Order approving Amended Disclosure Statement, in form and substance reasonably satisfactory to the Required Lenders, on or before                                                                                      | May 15, 2009                   |
| Failure of Debtors and Required Lenders to modify agreements under Term Loan consistent with Term Loan Modification Term Sheet ( <i>Modified Loan Documents</i> ) on or before                                                                              | May 15, 2009                   |
| Failure of Bankruptcy Court to enter Order confirming the Amended Plan ( <i>Confirmation Order</i> ) on or before                                                                                                                                           | June 30, 2009                  |
| Failure of Debtors to consummate the Amended Plan on or before                                                                                                                                                                                              | July 15, 2009                  |
|                                                                                                                                                                                                                                                             | ( <i>Plan Effective Date</i> ) |
| Failure of Debtors or non-Debtor subsidiaries to timely make, or fail payment of, scheduled principal or interest required under Term Loan ( <i>Loan Document Payments</i> )                                                                                | Prior to Plan Effective Date   |
| As of the date of this filing, all of the Failure Events described above with regard to the Term Loan Forbearance Agreement were avoided.                                                                                                                   |                                |

Termination of Forbearance also could occur in the event:

of certain noteholder, or indenture trustee, objection to Loan Document Payments;

any Chapter 11 Case is converted to a case under Chapter 7 of Bankruptcy Code;

the Bankruptcy Court shall enter an order in the Chapter 11 Cases ordering the appointment of (i) a trustee, (ii) a responsible officer, or (iii) an examiner with enlarged powers relating to the operation of the business (powers beyond those set forth in subclauses (3) and (4) of Section 1106(a)) under Section 1106(b) of the Bankruptcy Code;

any of the Chapter 11 Cases are dismissed;

the Confirmation Order is reversed on appeal or vacated;

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any Primus Term Loan Party has failed to perform any material provision of the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet subject to notice and cure;

**Table of Contents**

any court or governmental authority shall enter a final, non-appealable judgment or order declaring the Term Loan Forbearance Agreement or any material portion thereof to be unenforceable or enjoining the consummation of a material portion of the transactions contemplated hereby;

the Debtors shall withdraw the Amended Plan or publicly announce their intention not to support the Amended Plan, or propose a reorganization or plan under the Bankruptcy Code other than the Amended Plan;

the Debtors inform the Required Lenders in writing of their determination that there is sufficient risk of non-performance by the Debtors with respect to the financial obligations contemplated by the Amended Plan with respect to the Lenders and the Loan Documents such that the amendments to the Loan Documents contemplated by the Term Sheet are no longer in the best interests of the Debtors' estates;

the Debtors lose the exclusive right to file and solicit acceptances of the Amended Plan;

the conditions precedent required to be met prior to the closing of the amendment to the Term Loan agreement, consistent with and as contemplated in the Term Loan Modification Term Sheet, including any modification or amendment thereof, have not been satisfied on or before the Plan Effective Date or waived by the Required Lenders;

the Debtors file any motion or pleading with the Bankruptcy Court that is not consistent in any material respect with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet and such motion or pleading has not been withdrawn prior to the earlier of (i) two (2) business days of the Debtors receiving notice that such motion or pleading is inconsistent with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet and (ii) entry of an order of the Bankruptcy Court approving such motion;

the Bankruptcy Court grants relief that is inconsistent with the Term Loan Forbearance Agreement or the Term Loan Modification Term Sheet in any material respect;

the commencement of an avoidance action by any or all of the Debtors affecting the rights of any Term Loan lender or the commencement of such an action by any other party;

the filing by any or all of the Debtors or by any other party of an objection to the allowance of the Term Loan lenders' claims against the Debtors' estates in respect of the Term Loan Agreement;

subject to the execution of an appropriate and otherwise reasonable confidentiality agreement, to the extent necessary, the failure by the Debtors to provide to the Required Lenders and their advisors (i) reasonable access to the books and records of the Debtors, and (ii) reasonable access to the respective management and advisors of the Debtors for the purposes of evaluating the Debtors' respective business plans and participating in the plan process with respect to the Reorganization;

the occurrence of a Termination Event as that term is defined in the Plan Support Agreement (the "PSA") entered into as of March 16, 2009 between the Second Lien Noteholders, the 8% Noteholder, the 5% Noteholders and the Debtors that has resulted in a termination of the PSA;

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failure to replace LCPI with an administrative agent reasonably acceptable to the Company and the Required Lenders on or before the Plan Effective Date;

the failure of the Debtors or any non-Debtor subsidiaries to pay all reasonable invoiced and unpaid fees and expenses of the Required Lenders' advisors on or before the Plan Effective Date;

the Bankruptcy Court shall enter an order approving the use of cash collateral or otherwise approving the Debtors' use of cash to fund the Chapter 11 Cases without the prior written consent of the Required Lenders; or

the filing of a petition for relief under the Bankruptcy Court by a non-Debtor Guarantor.

## **Table of Contents**

While the Term Loan Forbearance Agreement is in effect, Forbearance shall be operative with respect to Forbearance Defaults and Covenants, but shall not constitute a forbearance with respect to any failure of the Company, Holding, PTII or any Guarantor to comply with any other covenant or other provision in the Term Loan Agreement or any of the Loan Documents or the occurrence of other present or future Default or Event of Default. None of these events has occurred.

### **Canadian Credit Facility**

In March 2007, the Company 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 provides for a \$35.0 million non-amortizing loan bearing interest at a rate of LIBOR plus 425 basis points and matures 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 is secured by the assets of the Company's Canadian operations and certain guarantees. At June 30, 2009, the Company had an outstanding liability of \$29.5 million under the Canadian Credit Facility.

In October 2007, the Company 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 is 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 nor, correspondingly, were payments made from Primus 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. Because of the possible multiple interpretations of the covenant language, the Company specifically addressed these points in the Waiver and Amendment Agreement (described below).

On March 10, 2009, Group's indirect wholly-owned Canadian subsidiary, Primus Telecommunications Canada Inc. ( 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.

**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:

| <b>Payment Date</b>                                                                          | <b>Principal<br/>Payment Amount</b> |
|----------------------------------------------------------------------------------------------|-------------------------------------|
| 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                          |

On March 10, 2009, a principal prepayment of \$1,750,000 was paid upon the execution of the Waiver and Amendment. On March 31, 2009, April 30, 2009 and May 31, 2009, principal payments of \$500,000 were made and on June 30, 2009, a principal payment of \$2,250,000 was made as required under the Waiver and Amendment.

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.

The Waiver and Amendment established certain additional events of default under the Canadian Credit Facility to include any of the following:

the Bankruptcy Court shall enter an order denying confirmation of the Plan or the Chapter 11 Cases shall be converted to a case under Chapter 7 of Title 11 of the United States Code;

the plan of reorganization shall not have been confirmed by the Bankruptcy Court and become effective on or before August 31, 2010;

the plan of reorganization shall be confirmed or become effective without the reinstatement after effectiveness of each guarantee on terms identical to such guarantee existing on the date hereof as a valid, unsubordinated obligation of the applicable guarantor, or the plan of reorganization is confirmed without any guarantor holding, directly or indirectly, substantially all of its current assets and businesses;

the Bankruptcy Court shall enter any order that impairs the enforceability of this Agreement or any loan document (except as provided herein in connection with the obligations of the guarantors under the guarantee), as reasonably determined by the Administrative Agent;

any representation or warranty made by a credit party in this Agreement shall prove to be untrue in any material respect as of the date hereof;

any credit party shall default in the performance of any obligation under this Agreement that is not cured within 10 business days following notice thereof from the Administrative Agent; and

the guarantee or any other loan document executed by a guarantor shall cease to be valid and binding on or enforceable against any guarantor.



## **Table of Contents**

The Company is currently in compliance with each of these items.

### **Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures (see Liabilities Subject to Compromise above)**

#### *14 1/4% Senior Secured Notes*

In February 2007, subsequent to the effectiveness of the amendment of the Facility, IHC issued in a private transaction \$57.2 million principal amount of the 14 1/4% Senior Secured Notes in exchange for \$40.7 million principal amount of the Company's outstanding 12 1/4% Senior Notes and \$23.6 million in cash. This exchange has been accounted for as a modification of debt with a portion deemed to be a troubled debt restructuring. In March 2007, IHC also issued for cash in private transactions an additional \$51.0 million principal amount of 14 1/4% Senior Secured Notes with a \$0.3 million discount. Net cash proceeds from the 14 1/4% Senior Secured Notes issuance, after giving effect to expenses, discounts and fees related to all of the foregoing transactions (including the amendment of the Facility) 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 1/4% Convertible Senior Notes, and \$5.3 million principal amount of the Company's 12 1/4% Senior Notes. All exchanges were deemed troubled debt restructurings, and accordingly, have been accounted for as modifications of debt, with future cash interest payments of \$26.4 million being 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 31<sup>st</sup> and November 30<sup>th</sup>, beginning May 31<sup>st</sup>, 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 13 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.

#### *5% Exchangeable Senior Notes*

In the second quarter 2006, the Company completed the exchange of \$54.8 million principal amount of the Company's 3 1/4% Convertible Senior Notes and \$20.5 million in cash for \$56.3 million principal amount of Holding's 5% Exchangeable Senior Notes. This exchange was deemed a troubled debt restructuring, and accordingly, has been accounted for as a modification of debt, with total future cash payments of \$67.6 million being recorded in long-term obligations. The Company recognized a gain on restructuring of debt of \$4.8 million in connection with this exchange, including the expensing of \$2.9 million of financing costs.

The 5% Exchangeable Senior Notes were to mature on June 30, 2010, as a result of the Company increasing its equity (through designated transactions) in the aggregate of \$25 million during June and July 2007. Interest on

## **Table of Contents**

the 5% Exchangeable Senior Notes is paid at the rate of 5% per annum on each June 30 and December 30, beginning on December 30, 2006. Under certain circumstances, the Company may elect to make interest payments in shares of common stock, although the holders of the 5% Exchangeable Senior Notes were entitled to receive the first two semi-annual interest payments wholly in cash. The 5% Exchangeable Senior Notes are exchangeable into the Company's common stock at a conversion price of \$1.20 per share of common stock, subject to adjustment in certain circumstances. If the closing bid price of the Company's common stock, for at least 20 trading days in any consecutive 30 trading-day period, exceeds 150% of the conversion price then in effect, the Company may elect to exchange the senior notes for shares of the Company's common stock at the conversion price, subject to certain conditions, including that no more than 50% of the 5% Exchangeable Senior Notes may be exchanged by the Company within any 30-day period. As of June 30, 2009, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may require the Company to repurchase the 5% Exchangeable Senior Notes at which time the Company has the option to settle in cash or common stock at an adjusted conversion price. The 5% Exchangeable Senior Notes are guaranteed by Primus Telecommunications Group, Incorporated (Group) (see Note 13 Guarantor/Non-Guarantor Consolidating Condensed Financial Information ).

In May 2008, the Company restructured \$33.0 million principal amount of the 5% Exchangeable Senior Notes; see prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote. The outstanding 5% Exchangeable Senior Notes are convertible in the aggregate into 19,474,167 shares of the Company's common stock. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as a liability subject to compromise on the balance sheet as of June 30, 2009.

### *8% Senior Notes*

In January 2004, Holding, a direct, wholly-owned subsidiary of the Company, completed the sale of \$240 million in aggregate principal amount of 8% Senior Notes which were to mature in 2014 with semi-annual interest payments due on January 15<sup>th</sup> and July 15<sup>th</sup>, with early redemption at a premium to par at Holding's option at any time after January 15, 2009. The Company recorded \$6.7 million in costs associated with the issuance of the 8% Senior Notes, which have been recorded as deferred financing costs in other assets. The effective interest rate at December 31, 2008 was 8.4%. During specified periods, Holding may redeem up to 35% of the original aggregate principal amount with the net cash proceeds of certain equity offerings of the Company. The 8% Senior Notes are guaranteed by Group (see Note 13 Guarantor/Non-Guarantor Consolidating Condensed Financial Information ).

During the year ended December 31, 2004, the Company reduced \$5.0 million principal balance of the 8% Senior Notes through open market purchases. In May 2008, the Company restructured \$49.0 million principal amount of the 8% Senior Notes; see prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as a liability subject to compromise on the balance sheet as of June 30, 2009.

### *Step Up Convertible Subordinated Debentures*

In the first quarter 2006, the Company completed the exchange of \$27.4 million principal amount of the 5 3/4% convertible subordinated debentures due 2007 ( 2000 Convertible Subordinated Debentures ) for \$27.5 million principal amount of the Step Up Convertible Subordinated Debentures through two transactions. The Company recognized a gain on early extinguishment of debt of \$1.5 million in connection with this exchange.

The Step Up Convertible Subordinated Debentures were to mature on August 15, 2009. Interest will be payable from February 27, 2006 to December 31, 2006 at the rate of 6% per annum; from January 1, 2007 to December 31, 2007 at the rate of 7% per annum; and from January 1, 2008 to maturity at the rate of 8% per annum. Accrued interest will be paid each February 15 and August 15, beginning August 15, 2006, to holders of record on the preceding February 1 and August 1, respectively. The Step Up Convertible Subordinated

## **Table of Contents**

Debentures are convertible into the Company's common stock at a conversion price of \$1.187 per share of common stock through August 15, 2009, subject to adjustment in certain circumstances. The Indenture permits the Company, at its sole option, to require conversion if the Company's stock trades at 150% of the conversion price for at least 20 days within a 30 day period, subject to certain conditions, including that no more than 25% of the notes may be exchanged within any 30 day trading period. As of June 30 2009, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price.

During the quarter ended June 30, 2007, the Company exchanged 6,000,000 shares of the Company's common stock for the extinguishment of \$5.0 million in principal amount of these convertible subordinated debentures. In accordance with SFAS No. 84, Induced Conversion of Convertible Debt, the Company recognized an induced conversion expense of \$1.6 million and \$0.7 million write-off of debt discount and deferred financing costs in connection with this conversion. During the first quarter 2008, the Company made open market purchases of \$13.8 million principal amount of its Step Up Convertible Subordinated Debentures, resulting in a \$2.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs. The outstanding Step Up Convertible Subordinated Debentures are convertible in the aggregate into 7,279,697 shares of the Company's common stock. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as a liability subject to compromise on the balance sheet as of June 30, 2009.

### *3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes*

In September 2003, the Company completed the sale of \$132 million in aggregate principal amount of 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes. The 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes are due September 2010, with semi-annual interest payments due on March 15<sup>th</sup> and September 15<sup>th</sup>. The Company recorded \$5.2 million in costs associated with the issuance of the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes, which have been recorded as deferred financing costs in other assets. Holders of these notes may convert their notes into the Company's common stock at any time prior to maturity at an initial conversion price of \$9.3234 per share, which is equivalent to an initial conversion rate of 107.257 shares per \$1,000 principal amount of the notes, subject to adjustment in certain circumstances. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price.

In the second quarter 2006, the Company restructured \$54.8 million principal amount of 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes; see prior disclosure regarding the 5% Exchangeable Senior Notes within this footnote. In May 2008, the Company restructured \$43.1 million principal amount of 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes; see prior disclosure regarding the 14<sup>1</sup>/<sub>4</sub>% Senior Secured Notes within this footnote. The outstanding notes are convertible in the aggregate into 3,668,190 shares of the Company's common stock. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as a liability subject to compromise on the balance sheet as of June 30, 2009.

### *Step Up Convertible Subordinated Debentures and 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes Supplemental Information*

At the time of issuance of the Step Up Convertible Subordinated Debentures, the Company did not have sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Accordingly, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes were hybrid instruments with characteristics of a debt host agreement and contained embedded derivative features that had characteristics and risks that were not clearly and closely associated with the debt host. In the first quarter 2006, the conversion options were determined to be derivative instruments to be bifurcated and recorded as a current liability at fair value. In the second quarter 2006, the Company's shareholders voted to approve alternative proposals to authorize an amendment to the Company's Certificate of Incorporation to affect a one-for-ten reverse stock split or to authorize an amendment of the Company's Certificate of Incorporation allowing an

## **Table of Contents**

increase of authorized common stock from 150,000,000 to 300,000,000. Either authorization ensured the Company would have the ability to control whether it has sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Therefore, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes did not contain embedded derivative features as of the date of the shareholder vote, June 20, 2006, and added back the June 20, 2006 fair value of the embedded derivative into the debt balance. On July 27, 2006, the Board of Directors determined to increase the authorized shares of the common stock to 300,000,000.

The Company recorded a corresponding debt discount to the Step Up Convertible Subordinated Debentures and the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes in the amount of the fair value of the embedded derivative at the issue date. An additional debt discount of \$1.7 million was recorded for the Step Up Convertible Subordinated Debentures to bring the carrying value to fair value. The carrying value of the Step Up Convertible Subordinated Debentures at issuance was approximately \$14.3 million, and the carrying value of the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes at issuance of the Step Up Convertible Subordinated Debentures was approximately \$127.8 million. The Company accreted the difference between the face values of the Step Up Convertible Subordinated Debentures and the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes and the corresponding carrying values to interest expense under the effective interest method on a monthly basis over the lives of the Step Up Convertible Subordinated Debentures and the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes. Prior to March 16, 2009, when Debtors filed bankruptcy petition, the carrying value of the Step Up Convertible Subordinated Debentures (face value of \$8.6 million) was \$8.4 million, and the carrying value of the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes (face value of \$34.2 million) was \$34.0 million. The effective interest rates of the Step Up Convertible Subordinated Debentures and the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes at December 31, 2008 were 14.0% and 4.7%, respectively.

### *12<sup>3</sup>/<sub>4</sub>% Senior Notes*

In October 1999, the Company completed the sale of \$250 million in aggregate principal amount of the 12<sup>3</sup>/<sub>4</sub>% Senior Notes. The 12<sup>3</sup>/<sub>4</sub>% Senior Notes are due October 15, 2009, with semi-annual interest payments due on October 15<sup>th</sup> and April 15<sup>th</sup> with early redemption at a premium to par at the Company's option at any time after October 15, 2004 and with an early redemption at par at the Company's option at any time after October 15, 2007.

During the years ended December 31, 2002, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In June and September 2002, the Company retired all of the 12<sup>3</sup>/<sub>4</sub>% Senior Notes that it had previously purchased in the principal amount of \$134.3 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. During the year ended December 31, 2004, the Company retired \$33.0 million principal amount of the 12<sup>3</sup>/<sub>4</sub>% Senior Notes through open market purchases. During the year ended December 31, 2005, the Company exchanged 5,165,175 shares of the Company's common stock for the extinguishment of \$8.6 million principal amount of these senior notes. During the quarter ended March 31, 2006, the Company exchanged 1,825,000 shares of the Company's common stock for the extinguishment of \$2.5 million principal amount of these senior notes. During the first quarter 2007, the Company restructured \$40.7 million principal amount of the 12<sup>3</sup>/<sub>4</sub>% Senior Notes; the Company entered into a supplemental indenture, amending the terms to eliminate certain covenants. See prior disclosure regarding the 14<sup>1</sup>/<sub>4</sub>% Senior Secured Notes within this footnote. During the remainder of 2007, the Company retired \$10.5 million principal amount of the 12<sup>3</sup>/<sub>4</sub>% Senior Notes through open market purchases. In the first quarter 2008, the Company made open market purchases of \$0.8 million principal amount of its 12<sup>3</sup>/<sub>4</sub>% Senior Notes, resulting in a \$0.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs. In May 2008, the Company restructured \$5.3 million principal amount of the 12<sup>3</sup>/<sub>4</sub>% Senior Notes; see prior disclosure regarding the 14<sup>1</sup>/<sub>4</sub>% Senior Secured Notes within this footnote. This debt is in default as a result of the bankruptcy filing on March 16, 2009, and is classified as a liability subject to compromise on the balance sheet as of June 30, 2009.

**Table of Contents****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 \$8.1 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 \$2.5 million (3.1 million AUD) to June 2010 with monthly payments of interest at a rate of 13.5%. If certain conditions are not met, including certain purchase targets by September 30, 2009, Optus Networks Pty. Limited may give 30 days notice requiring full payment of the principal balance. At June 30, 2009 and December 31, 2008, the Company had a liability recorded in the amount of \$2.5 million (3.1 million AUD) and \$2.5 million (3.1 million AUD), respectively. \$2.5 million (3.1 million AUD) and \$0 million were classified as current portion of long-term obligations at June 30, 2009 and December 31, 2008, respectively.

**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. The effective interest rate on the current borrowing is 9.6%. At June 30, 2009 and December 31, 2008, the Company had a liability recorded under this agreement in the amount \$1.7 million (2.1 million AUD) and \$3.3 million (4.2 million AUD), respectively.

**6. 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 June 30, 2009 are as follows (in thousands):

| <b>Year Ending December 31,</b>    | <b>Vendor<br/>Financing<br/>and Other</b> | <b>Purchase<br/>Obligations</b> | <b>Operating<br/>Leases</b> |
|------------------------------------|-------------------------------------------|---------------------------------|-----------------------------|
| 2009 (as of June 30, 2009)         | \$ 1,888                                  | \$ 15,888                       | \$ 8,660                    |
| 2010                               | 5,151                                     | 16,659                          | 13,724                      |
| 2011                               | 1,068                                     | 3,998                           | 10,186                      |
| 2012                               | 257                                       | 2,572                           | 8,559                       |
| 2013                               | 64                                        |                                 | 6,038                       |
| Thereafter                         | 33                                        |                                 | 9,075                       |
| Total minimum lease payments       | 8,461                                     | 39,117                          | 56,242                      |
| Less: Amount representing interest | (874)                                     |                                 |                             |
|                                    | \$ 7,587                                  | \$ 39,117                       | \$ 56,242                   |

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 Company made purchases under

## **Table of Contents**

purchase commitments of \$6.5 million and \$10.2 million for the three months ended June 30, 2009 and 2008, respectively. The Company made purchases under purchase commitments of \$12.8 million and \$19.1 million for the six months ended June 30, 2009 and 2008, respectively.

Rent expense under operating leases was \$3.5 million and \$4.7 million for the three months ended June 30, 2009 and 2008, respectively. Rent expense under operating leases was \$6.8 million and \$9.0 million for the six months ended June 30, 2009 and 2008, respectively.

## ***Litigation***

### ***Legal Proceedings Related to the Chapter 11 Cases***

On March 16, 2009, each of Group, Holding, PTII and IHC filed Chapter 11 Cases in the United States Bankruptcy Court for the District of Delaware for reorganization relief under Chapter 11 of the Bankruptcy Code. Subsequently, the Debtors sought and received an order directing joint administration of the Debtors' Chapter 11 Cases under the caption, In re: Primus Telecommunications Group, Incorporated, et al., Debtors Case No. 09-10867. On April 24, 2009, an unsecured creditors' committee was appointed by the United States Trustee. On April 27, 2009, the Bankruptcy Court approved the use of the Debtors' Disclosure Statement, which attached thereto the Plan, to solicit votes for the Plan and set a Plan confirmation hearing date. The Plan was confirmed by the Bankruptcy Court on June 12, 2009 and became effective on July 1, 2009 (see Note 1 - Proceedings Under Chapter 11 of The Bankruptcy Code).

### ***Other Legal Proceedings***

Group and its subsidiaries are subject to claims and legal proceedings unrelated to the Chapter 11 Cases that arise in the ordinary course of its business (Other Proceedings). 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 the Other Proceedings will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

## **7. SHARE-BASED COMPENSATION**

This note does not reflect any revision that will occur as a result of the confirmation of the Company's Plan of Reorganization related to its March 16, 2009 voluntary bankruptcy petition under Chapter 11 and the resulting effects to the Company's capital structure (see Note 1 - Proceeding Under Chapter 11 of the Bankruptcy Code).

The Company sponsors an employee stock compensation plan (the Equity Incentive Plan). The total number of shares of common stock authorized for issuance under the Equity Incentive Plan is 13,000,000. Under the Equity Incentive Plan, awards may be granted to key employees or consultants of the Company and its subsidiaries in the form of Incentive Stock Options, Nonqualified Stock Options or Restricted Stock Units. The Equity Incentive Plan allows the granting of options at an exercise price of not less than 100% of the stock's fair value at the date of grant and allows the grant of restricted stock units (RSUs) for no consideration. The options and RSUs vest over a period of up to three years. No option will be exercisable more than ten years from the date it is granted. On June 16, 2004, the stockholders of the Company approved amendments to the Equity Incentive Plan, including (i) renaming the employee stock option plan the Equity Incentive Plan; (ii) expanding the forms of awards permitted to be granted, including stock appreciation rights, restricted stock awards, stock units and other equity securities, and authorizing a tax deferral feature for executive officers; (iii) prohibiting the repricing of stock options in the future without stockholder approval; and (iv) requiring vesting in full to be not less than three years for restricted stock and stock unit awards, unless accelerated following the first anniversary of the award due to the satisfaction of predetermined performance conditions.

The Company sponsors a Director Stock Option Plan (the Director Plan) for non-employee directors. Under the Director Plan, an option is granted to each qualifying non-employee director upon election or

## Table of Contents

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

A summary of stock option activity during the six months ended June 30 is as follows:

|                                     | 2009      |                                 | 2008      |                                 |
|-------------------------------------|-----------|---------------------------------|-----------|---------------------------------|
|                                     | Shares    | Weighted Average Exercise Price | Shares    | Weighted Average Exercise Price |
| Options outstanding January 1, 2009 | 7,814,403 | \$ 1.85                         | 7,368,262 | \$ 2.09                         |
| Granted                             | 300,000   | \$ 0.04                         | 1,035,000 | \$ 0.35                         |
| Exercised                           |           | \$                              |           | \$                              |
| Forfeitures                         | (361,445) | \$ 2.22                         | (333,693) | \$ 2.52                         |
| Outstanding June 30, 2009           | 7,752,958 | \$ 1.76                         | 8,069,569 | \$ 1.86                         |
| Eligible for exercise June 30, 2009 | 6,882,953 | \$ 1.95                         | 6,637,527 | \$ 2.15                         |

The following table summarizes information about stock options outstanding at June 30, 2009:

| Range of Option Prices |    |          | Options Outstanding |                                          |                                 |                 | Options Exercisable |                                          |                                 |                 |
|------------------------|----|----------|---------------------|------------------------------------------|---------------------------------|-----------------|---------------------|------------------------------------------|---------------------------------|-----------------|
|                        |    |          | 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 |
| \$ 0.03                | to | \$ 0.29  | 310,000             | 9.61                                     | \$ 0.04                         | \$              | 1,666               | 8.83                                     | \$ 0.27                         | \$              |
| \$ 0.36                | to | \$ 0.79  | 1,647,165           | 7.17                                     | \$ 0.54                         | \$              | 1,085,494           | 6.46                                     | \$ 0.63                         | \$              |
| \$ 0.87                | to | \$ 0.88  | 110,000             | 6.50                                     | \$ 0.87                         | \$              | 110,000             | 6.50                                     | \$ 0.87                         | \$              |
| \$ 0.90                |    |          | 747,664             | 2.02                                     | \$ 0.90                         | \$              | 747,664             | 2.02                                     | \$ 0.90                         | \$              |
| \$ 0.92                |    |          | 585,500             | 6.36                                     | \$ 0.92                         | \$              | 585,500             | 6.36                                     | \$ 0.92                         | \$              |
| \$ 0.93                | to | \$ 0.99  | 110,000             | 3.64                                     | \$ 0.98                         | \$              | 110,000             | 3.64                                     | \$ 0.98                         | \$              |
| \$ 1.33                | to | \$ 1.65  | 1,452,755           | 3.48                                     | \$ 1.65                         | \$              | 1,452,755           | 3.48                                     | \$ 1.65                         | \$              |
| \$ 1.90                | to | \$ 2.38  | 1,678,874           | 3.50                                     | \$ 1.97                         | \$              | 1,678,874           | 3.50                                     | \$ 1.97                         | \$              |
| \$ 3.03                | to | \$ 6.30  | 1,101,500           | 5.10                                     | \$ 4.89                         | \$              | 1,101,500           | 5.10                                     | \$ 4.89                         | \$              |
| \$ 12.31               | to | \$ 31.94 | 9,500               | 0.72                                     | \$ 27.19                        | \$              | 9,500               | 0.72                                     | \$ 27.19                        | \$              |
|                        |    |          | 7,752,958           | 4.86                                     | \$ 1.76                         | \$              | 6,882,953           | 4.35                                     | \$ 1.95                         | \$              |

The number of unvested options expected to vest is 0.4 million shares, with a weighted average remaining life of 8.9 years, a weighted average exercise price of \$0.26, and an intrinsic value of \$0.

In 2007, 100,000 restricted stock units were granted. None have vested as their vesting schedule is to vest 100% three years from grant date. In the second quarter 2008, the Company recognized \$3 thousand expense related to this grant. In October 2008, the stock units were fully vested upon involuntary termination without cause. The employee withholding tax was netted against the share issuance, and the Company issued 62,850 shares of common stock and accelerated the recognition of \$28 thousand expense.

In December 1998, the Company established the 1998 Restricted Stock Plan (the "Restricted Plan") to facilitate the grant of restricted stock to selected individuals (excluding executive officers and directors of the Company) who contribute to the development and success of the

Company. The total number of shares of

**Table of Contents**

common stock that may be granted under the Restricted Plan is 750,000. The Company did not issue any restricted stock under the Restricted Plan for three months and six months ended June 30, 2009 and 2008. As of June 30, 2009, 54,000 shares have been issued and none are considered restricted.

**8. 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:

| <b>Jurisdiction</b>   | <b>Open Tax Years</b>       |
|-----------------------|-----------------------------|
| United States Federal | 2000, 2002, 2003, 2005 2008 |
| Australia             | 2001 2008                   |
| Canada                | 2003 2008                   |
| United Kingdom        | 2003 2008                   |
| Netherlands           | 2007 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 FASB Interpretation ( FIN ) No. 48, Accounting for Uncertainty in 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 FIN No. 48. 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.

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 ). In 2009 and prior testing periods under Section 382, the Company has had significant activity in this shareholder base, but upon review of the 13G filings and other available data the Company believes that an ownership change did not occur during the six months ended June 30, 2009. If a change is to occur, the resulting Section 382 limitation would place severe limits on the Company's ability to utilize the United States net operating losses.

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 \$320 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 (and other tax attributes including the basis in assets) by the amount of the COD income upon the close of its current calendar year end.

Although the Company has not completed its analysis, as a result of the 2009 COD income, for federal tax purposes, the Company currently expects to eliminate all or substantially all of the remaining net operating loss (NOL)'s attributes and to have a complete or very substantial reduction to the tax basis of fixed and intangible assets. For state tax purposes, the 2009 COD income is expected to completely eliminate or substantially reduce the state NOLs.

## **Table of Contents**

Pursuant to Section 382 of the Internal Revenue Code, 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 annual limitation will be determined based upon a special Internal Revenue Code section that allows corporations emerging from bankruptcy to determine the limitation based upon the post emergence stock value.

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 testing to confirm whether or not such requirements 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. If section 382(l)(5) applies, the Company's NOLs would not be subject to the limitation; however, it would be required to reduce its existing NOL carryforward by certain interest deductions taken in the tax year that ended in 2009 as well as the three previous taxable years. It is anticipated that any remaining federal NOL carryforward would be reduced to zero if section 382(l)(5) applies. Certain consequences will result if another ownership change occurs before July 1, 2011 (the two year anniversary of the 2009 emergence date). In such case, the Section 382 limitation with respect to the subsequent ownership change would be zero.

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).

In addition, if, as is believed, the Company had a NUBIL at the 2009 Emergence Date, the basis of the Company's assets may be required to be marked-to-market for Adjusted Current Earnings (ACE) tax purposes. ACE is an alternative federal corporate tax regime with an expanded tax base (over regular tax) and an effective tax rate of 15%. To the extent tax is owed as a result of the ACE regime, a credit is available for regular tax purposes. If the Company has a NUBIL, the ACE basis mark-to-market rule will apply if section 382(l)(5) does not apply. If Section 382(l)(5) applies, the Company intends to take the position that the ACE basis mark-to-market rule does not apply. The IRS has previously stated its position that the ACE basis mark-to-market rule applies in the context of section 382(l)(5).

## **9. 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, with the wholesale business from the United States and Europe managed as a separate global segment, and Brazil. 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's assets are indistinguishable from the respective geographic segments. Therefore, any reporting related to the wholesale business for assets, capital expenditures or other balance sheet items is impractical.

**Table of Contents**

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

|                                                   | Three months ended<br>June 30, |            | Six months ended<br>June 30, |            |
|---------------------------------------------------|--------------------------------|------------|------------------------------|------------|
|                                                   | 2009                           | 2008       | 2009                         | 2008       |
| <b>Net Revenue by Geographic Region</b>           |                                |            |                              |            |
| United States                                     | \$ 36,606                      | \$ 42,505  | \$ 78,060                    | \$ 85,164  |
| Canada                                            | 55,061                         | 68,989     | 108,306                      | 137,438    |
| Europe                                            |                                |            |                              |            |
| <i>United Kingdom</i>                             | 23,932                         | 22,204     | 49,232                       | 39,581     |
| <i>Germany</i>                                    |                                | 4,839      | 5                            | 9,746      |
| <i>France</i>                                     | 7,338                          | 6,555      | 15,095                       | 12,322     |
| <i>Spain</i>                                      | 2,084                          | 2,921      | 4,369                        | 6,324      |
| <i>Italy</i>                                      | 7,764                          | 5,673      | 14,392                       | 9,013      |
| <i>Belgium</i>                                    | 1,689                          | 2,141      | 3,376                        | 4,283      |
| <i>Other</i>                                      | 815                            | 1,328      | 1,633                        | 2,382      |
| Total Europe                                      | 43,622                         | 45,661     | 88,102                       | 83,651     |
| Australia                                         |                                |            |                              |            |
| <i>Australia</i>                                  | 58,475                         | 75,992     | 110,502                      | 150,066    |
| <i>Other</i>                                      |                                | 70         |                              | 175        |
| Total Australia                                   | 58,475                         | 76,062     | 110,502                      | 150,241    |
| Brazil                                            | 2,978                          | 2,680      | 6,246                        | 4,837      |
| Total                                             | \$ 196,742                     | \$ 235,897 | \$ 391,216                   | \$ 461,331 |
| <b>Net Revenue by Segment</b>                     |                                |            |                              |            |
| United States                                     | \$ 16,918                      | \$ 22,445  | \$ 35,013                    | \$ 45,578  |
| Canada                                            | 55,061                         | 68,989     | 108,306                      | 137,438    |
| Europe                                            | 13,031                         | 16,925     | 26,667                       | 32,690     |
| Australia                                         | 58,475                         | 75,992     | 110,502                      | 150,067    |
| Wholesale                                         | 50,279                         | 48,866     | 104,482                      | 90,721     |
| Brazil                                            | 2,978                          | 2,680      | 6,246                        | 4,837      |
| Total                                             | \$ 196,742                     | \$ 235,897 | \$ 391,216                   | \$ 461,331 |
| <b>Provision for Doubtful Accounts Receivable</b> |                                |            |                              |            |
| United States                                     | \$ 863                         | \$ 735     | \$ 1,456                     | \$ 1,168   |
| Canada                                            | 541                            | 531        | 1,106                        | 877        |
| Europe                                            | 93                             | 200        | 210                          | 398        |
| Australia                                         | 1,120                          | 961        | 1,738                        | 2,228      |
| Wholesale                                         | 243                            | 345        | 516                          | 558        |
| Brazil                                            | 50                             | 96         | 114                          | 467        |
| Total                                             | \$ 2,910                       | \$ 2,868   | \$ 5,140                     | \$ 5,696   |
| <b>Income (Loss) from Operations</b>              |                                |            |                              |            |
| United States                                     | \$ 2,921                       | \$ 1,311   | \$ 4,304                     | \$ 3,214   |
| Canada                                            | 9,310                          | 11,840     | 18,738                       | 23,365     |
| Europe                                            | (104)                          | (2,007)    | (309)                        | (3,472)    |

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|           |       |       |        |         |
|-----------|-------|-------|--------|---------|
| Australia | 5,862 | 7,892 | 10,123 | 7,811   |
| Wholesale | 678   | (528) | 1,372  | (1,296) |
| Brazil    | 95    | 152   | 231    | 34      |

|                               |         |         |         |         |
|-------------------------------|---------|---------|---------|---------|
| Total From Operating Segments | 18,762  | 18,660  | 34,459  | 29,656  |
| Corporate                     | (4,600) | (3,433) | (6,670) | (4,716) |

|       |           |           |           |           |
|-------|-----------|-----------|-----------|-----------|
| Total | \$ 14,162 | \$ 15,227 | \$ 27,789 | \$ 24,940 |
|-------|-----------|-----------|-----------|-----------|

**Capital Expenditures**

|               |       |        |       |        |
|---------------|-------|--------|-------|--------|
| United States | \$ 18 | \$ 256 | \$ 73 | \$ 566 |
| Canada        | 1,179 | 3,181  | 3,127 | 5,323  |
| Europe        | 37    | 214    | 174   | 680    |
| Australia     | 1,488 | 4,017  | 1,997 | 7,906  |
| Brazil        | 152   | 74     | 289   | 124    |

|       |          |          |          |           |
|-------|----------|----------|----------|-----------|
| Total | \$ 2,874 | \$ 7,742 | \$ 5,660 | \$ 14,599 |
|-------|----------|----------|----------|-----------|

## Table of Contents

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

|                                   | June 30,<br>2009 | December 31,<br>2008 |
|-----------------------------------|------------------|----------------------|
| <b>Property and Equipment Net</b> |                  |                      |
| United States                     | \$ 13,816        | \$ 15,590            |
| Canada                            | 46,750           | 44,234               |
| Europe                            |                  |                      |
| <i>United Kingdom</i>             | 6,234            | 5,965                |
| <i>Other</i>                      | 410              | 577                  |
| Total Europe                      | 6,644            | 6,542                |
| Australia                         |                  |                      |
| <i>Australia</i>                  | 49,679           | 45,151               |
| <i>Other</i>                      | 105              | 131                  |
| Total Australia                   | 49,784           | 45,282               |
| Brazil                            | 846              | 504                  |
| Total                             | \$ 117,840       | \$ 112,152           |

|                       | June 30,<br>2009 | December 31,<br>2008 |
|-----------------------|------------------|----------------------|
| <b>Assets</b>         |                  |                      |
| United States         | \$ 13,245        | \$ 28,230            |
| Canada                | 124,785          | 121,105              |
| Europe                |                  |                      |
| <i>United Kingdom</i> | 22,966           | 23,597               |
| <i>Germany</i>        | 593              | 2,710                |
| <i>France</i>         | 5,688            | 6,326                |
| <i>Spain</i>          | 2,403            | 2,170                |
| <i>Italy</i>          | 12,943           | 9,301                |
| <i>Belgium</i>        | 2,133            | 2,571                |
| <i>Other</i>          | 28,760           | 28,521               |
| Total Europe          | 75,486           | 75,196               |
| Australia             |                  |                      |
| <i>Australia</i>      | 111,847          | 97,645               |
| <i>Other</i>          | 3,941            | 4,005                |
| Total Australia       | 115,788          | 101,650              |
| Brazil                | 5,233            | 4,263                |
| Total                 | \$ 334,537       | \$ 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):

|               | For the Three Months Ended<br>June 30, |            | For the Six Months Ended<br>June 30 , |            |
|---------------|----------------------------------------|------------|---------------------------------------|------------|
|               | 2009                                   | 2008       | 2009                                  | 2008       |
| Retail voice  | \$ 98,990                              | \$ 126,038 | \$ 193,669                            | \$ 250,718 |
| Wholesale     | 50,279                                 | 48,866     | 104,482                               | 90,721     |
| Data/Internet | 37,505                                 | 48,882     | 72,979                                | 96,206     |
| Retail VOIP   | 9,968                                  | 12,111     | 20,086                                | 23,686     |
| Total         | \$ 196,742                             | \$ 235,897 | \$ 391,216                            | \$ 461,331 |

## Table of Contents

### 10. 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 it would 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 reflect the Japan retail operations and German retail operations as discontinued operations for the three months and six months ended June 30, 2009 and 2008. 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 for the three months and six months ended June 30, 2009 and 2008 are as follows (in thousands):

|                                   | For the Three Months Ended |               | For the Six Months Ended |               |
|-----------------------------------|----------------------------|---------------|--------------------------|---------------|
|                                   | June 30, 2009              | June 30, 2008 | June 30, 2009            | June 30, 2008 |
| Net revenue                       | \$ 6                       | \$ 1,039      | \$ 300                   | \$ 2,206      |
| Operating expenses                | 289                        | 1,091         | 995                      | 2,308         |
| Loss from operations              | (283)                      | (52)          | (695)                    | (102)         |
| Interest income and other income  |                            | 31            | 19                       | 36            |
| Loss from discontinued operations | \$ (283)                   | \$ (21)       | \$ (676)                 | \$ (66)       |

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

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

Diluted income per common share adjusts basic income per common share for the effects of potentially dilutive common share equivalents. Potentially dilutive common shares primarily include the dilutive effects of common shares issuable under the Company's stock option compensation plans computed using the treasury stock method and the dilutive effects of shares issuable upon conversion of its 5% Exchangeable Senior Notes, the Step Up Convertible Subordinated Debentures, the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes and the 2000 Convertible Subordinated Debentures.

For the three months and six months ended June 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:

7.8 million shares issuable under the Company's stock option compensation plans.

For the three months ended June 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.



**Table of Contents**

For the six months ended June 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, and

7.2 million shares issuable upon conversion of the 3<sup>3</sup>/<sub>4</sub>% Convertible Senior Notes.

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

|                                                                                             | For the Three Months<br>Ended June 30, |           | For the Six Months<br>Ended June 30, |           |
|---------------------------------------------------------------------------------------------|----------------------------------------|-----------|--------------------------------------|-----------|
|                                                                                             | 2009                                   | 2008      | 2009                                 | 2008      |
| Income from continuing operations                                                           | \$ 25,649                              | \$ 46,545 | \$ 39,782                            | \$ 43,591 |
| Loss from discontinuing operations, net of tax                                              | (283)                                  | (21)      | (676)                                | (66)      |
| Gain from sale of discontinued operations, net of tax                                       |                                        |           | 251                                  |           |
| Net income attributable to common stockholders basic                                        | 25,366                                 | 46,524    | 39,357                               | 43,525    |
| Adjustment for interest expense on Step Up Convertible Subordinated Debentures              |                                        | 231       | 210                                  | 874       |
| Adjustment for interest expense on 3 <sup>3</sup> / <sub>4</sub> % Convertible Senior Notes |                                        | 741       | 332                                  |           |
| Income attributable to common stockholders diluted                                          | \$ 25,366                              | \$ 47,496 | \$ 39,899                            | \$ 44,399 |
| Weighted average common shares outstanding basic                                            | 142,695                                | 142,633   | 142,695                              | 142,633   |
| 5% Exchangeable Senior Notes                                                                | 19,474                                 | 34,261    | 19,474                               | 40,598    |
| Step Up Convertible Subordinated Debentures                                                 | 7,280                                  | 7,280     | 7,280                                | 11,990    |
| 3 <sup>3</sup> / <sub>4</sub> % Convertible Senior Notes                                    | 3,668                                  | 6,154     | 3,668                                |           |
| Weighted average common shares outstanding diluted                                          | 173,117                                | 190,328   | 173,117                              | 195,221   |
| Basic income per common share:                                                              |                                        |           |                                      |           |
| Income from continuing operations attributable to common stockholders                       | \$ 0.18                                | \$ 0.33   | \$ 0.28                              | \$ 0.31   |
| Loss from discontinued operations                                                           | (0.00)                                 | (0.00)    | (0.00)                               | (0.00)    |
| Gain from sale of discontinued operations                                                   |                                        |           | 0.00                                 |           |
| Net income attributable to common stockholders                                              | \$ 0.18                                | \$ 0.33   | \$ 0.28                              | \$ 0.31   |
| Diluted income per common share:                                                            |                                        |           |                                      |           |
| Income from continuing operations attributable to common stockholders                       | \$ 0.15                                | \$ 0.25   | \$ 0.23                              | \$ 0.23   |
| Loss from discontinued operations                                                           | (0.00)                                 | (0.00)    | (0.00)                               | (0.00)    |
| Gain from sale of discontinued operations                                                   |                                        |           | 0.00                                 |           |
| Net income attributable to common stockholders                                              | \$ 0.15                                | \$ 0.25   | \$ 0.23                              | \$ 0.23   |

The note does not reflect any revision that will occur as a result of the confirmation of the Company's Plan of Reorganization and subsequent emergence from bankruptcy as of July 1, 2009. As described in Note 1 *Voluntary Reorganization under Chapter 11* above, the Plan provides that holders of Old Common Stock are entitled to receive, following the Effective Date, their pro rata share of CVRs that may enable such holders to receive, subject to certain conditions, up to approximately 15% of the fully diluted New Common Stock of Reorganized Group as of the Emergence Date.



**Table of Contents****12. 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):

|                                                                        | <b>For the Three<br/>Months Ended<br/>June 30, 2009</b> | <b>For the Six<br/>Months Ended<br/>June 30, 2009</b> |
|------------------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------|
| Professional Fees                                                      | (\$ 8,271)                                              | (\$ 12,067)                                           |
| 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                                                     |
| <b>Reorganization Items, net</b>                                       | <b>(\$ 8,271)</b>                                       | <b>\$ 8,297</b>                                       |

Professional fees include financial, legal and other services directly associated with the reorganization process. Payments for the six months ended June 30, 2009 for professional fees and retainers were \$4.6 million. In accordance with SOP No. 90-7, 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 has 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 <sup>1</sup>/<sub>4</sub>% Senior Secured Notes and 5% Exchangeable Senior Notes as the issuance of these notes had been deemed troubled debt restructurings. See Note 5 Long-Term Obligations and Liabilities Subject to Compromise.

**13. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION****Consolidating Financial Statements for Holding Debt Issuances**

Holding's 8% Senior Notes and 5% Exchangeable Senior Notes are fully and unconditionally guaranteed by Group on a senior basis as of June 30, 2009. As discussed in Note 1, on March 16, 2009, Holding, Group, IHC and PTII filed for bankruptcy. Group has a 100% ownership in Holding and no direct subsidiaries other than Holding. Accordingly, the following consolidating condensed financial information as of June 30, 2009 and 2008 are included for (a) Group on a stand-alone basis; (b) Holding on a stand-alone basis; (c) Group indirect non-guarantor subsidiaries on a combined basis; and (d) Group on a consolidated basis.

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

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                                                                                   | <b>For the Three Months Ended June 30, 2009</b> |             |              |                     |                     |
|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|-------------|--------------|---------------------|---------------------|
|                                                                                                                                   | <b>PTGI</b>                                     | <b>PTHI</b> | <b>Other</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| NET REVENUE                                                                                                                       | \$                                              | \$          | \$ 196,742   | \$                  | \$ 196,742          |
| OPERATING EXPENSES                                                                                                                |                                                 |             |              |                     |                     |
| Cost of revenue (exclusive of depreciation included below)                                                                        |                                                 |             | 125,914      |                     | 125,914             |
| Selling, general and administrative                                                                                               | 3,599                                           | 995         | 45,806       |                     | 50,400              |
| Depreciation and amortization                                                                                                     |                                                 |             | 6,250        |                     | 6,250               |
| Loss on sale or disposal of assets                                                                                                |                                                 |             | 16           |                     | 16                  |
| Total operating expenses                                                                                                          | 3,599                                           | 995         | 177,986      |                     | 182,580             |
| INCOME (LOSS) FROM OPERATIONS                                                                                                     | (3,599)                                         | (995)       | 18,756       |                     | 14,162              |
| INTEREST EXPENSE                                                                                                                  |                                                 | (2,240)     | (1,119)      |                     | (3,359)             |
| INTEREST AND OTHER INCOME                                                                                                         |                                                 |             | 161          |                     | 161                 |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                                                                                          | 2,699                                           | (585)       | 22,056       |                     | 24,170              |
| INTERCOMPANY INTEREST                                                                                                             | (2,091)                                         | (4,397)     | 6,488        |                     |                     |
| MANAGEMENT FEE                                                                                                                    |                                                 | 2,960       | (2,960)      |                     |                     |
| INCOME (LOSS) FROM CONTINUING OPERATIONS<br>BEFORE REORGANIZATION ITEMS, INCOME TAXES AND<br>EQUITY IN NET INCOME OF SUBSIDIARIES | (2,991)                                         | (5,257)     | 43,382       |                     | 35,134              |
| REORGANIZATION ITEMS NET                                                                                                          | (6,580)                                         | (1,691)     |              |                     | (8,271)             |
| INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN<br>NET INCOME OF SUBSIDIARIES                                                     | (9,571)                                         | (6,948)     | 43,382       |                     | 26,863              |
| INCOME TAX EXPENSE                                                                                                                |                                                 |             | (1,110)      |                     | (1,110)             |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF<br>SUBSIDIARIES                                                                      | (9,571)                                         | (6,948)     | 42,272       |                     | 25,753              |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                                                                              | 34,937                                          | 41,885      |              | (76,822)            |                     |
| INCOME FROM CONTINUING OPERATIONS                                                                                                 | 25,366                                          | 34,937      | 42,272       | (76,822)            | 25,753              |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                                                                                     |                                                 |             | (283)        |                     | (283)               |
| NET INCOME                                                                                                                        | 25,366                                          | 34,937      | 41,989       | (76,822)            | 25,470              |
| Less: Net income attributable to the noncontrolling interest                                                                      |                                                 |             | (104)        |                     | (104)               |
| NET INCOME ATTRIBUTABLE TO PRIMUS<br>TELECOMMUNICATIONS GROUP, INCORPORATED                                                       | \$ 25,366                                       | \$ 34,937   | \$ 41,885    | \$ (76,822)         | \$ 25,366           |
| AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS<br>OF PRIMUS TELECOMMUNICATIONS GROUP,<br>INCORPORATED                                |                                                 |             |              |                     |                     |
| Income from continuing operations, net of tax                                                                                     | \$ 25,366                                       | \$ 34,937   | \$ 42,168    | \$ (76,822)         | \$ 25,649           |
| Loss from discontinued operations                                                                                                 |                                                 |             | (283)        |                     | (283)               |

|            |           |           |           |             |           |
|------------|-----------|-----------|-----------|-------------|-----------|
| Net income | \$ 25,366 | \$ 34,937 | \$ 41,885 | \$ (76,822) | \$ 25,366 |
|------------|-----------|-----------|-----------|-------------|-----------|

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                                                                             | For the Six Months Ended June 30, 2009 |           |            |              |              |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-----------|------------|--------------|--------------|
|                                                                                                                             | PTGI                                   | PTHI      | Other      | Eliminations | Consolidated |
| NET REVENUE                                                                                                                 | \$                                     | \$        | \$ 391,216 | \$           | \$ 391,216   |
| OPERATING EXPENSES                                                                                                          |                                        |           |            |              |              |
| Cost of revenue (exclusive of depreciation included below)                                                                  |                                        |           | 255,288    |              | 255,288      |
| Selling, general and administrative                                                                                         | 4,638                                  | 1,985     | 89,213     |              | 95,836       |
| Depreciation and amortization                                                                                               |                                        |           | 12,346     |              | 12,346       |
| Gain on sale or disposal of assets                                                                                          |                                        |           | (43)       |              | (43)         |
| Total operating expenses                                                                                                    | 4,638                                  | 1,985     | 356,804    |              | 363,427      |
| INCOME (LOSS) FROM OPERATIONS                                                                                               | (4,638)                                | (1,985)   | 34,412     |              | 27,789       |
| INTEREST EXPENSE                                                                                                            | (794)                                  | (7,863)   | (5,478)    |              | (14,135)     |
| ACCRETION ON DEBT PREMIUM (DISCOUNT)                                                                                        | (129)                                  |           | 318        |              | 189          |
| INTEREST AND OTHER INCOME                                                                                                   |                                        |           | 396        |              | 396          |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                                                                                    | 2,632                                  | (778)     | 19,267     |              | 21,121       |
| INTERCOMPANY INTEREST                                                                                                       | (4,169)                                | (8,764)   | 12,933     |              |              |
| MANAGEMENT FEE                                                                                                              |                                        | 4,009     | (4,009)    |              |              |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES | (7,098)                                | (15,381)  | 57,839     |              | 35,360       |
| REORGANIZATION ITEMS NET                                                                                                    | (8,749)                                | (5,597)   | 22,643     |              | 8,297        |
| INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES                                                  | (15,847)                               | (20,978)  | 80,482     |              | 43,657       |
| INCOME TAX EXPENSE                                                                                                          |                                        |           | (3,907)    |              | (3,907)      |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES                                                                   | (15,847)                               | (20,978)  | 76,575     |              | 39,750       |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                                                                        | 55,204                                 | 76,182    |            | (131,386)    |              |
| INCOME FROM CONTINUING OPERATIONS                                                                                           | 39,357                                 | 55,204    | 76,575     | (131,386)    | 39,750       |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                                                                               |                                        |           | (676)      |              | (676)        |
| GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax                                                                       |                                        |           | 251        |              | 251          |
| NET INCOME                                                                                                                  | 39,357                                 | 55,204    | 76,150     | (131,386)    | 39,325       |
| Less: Net loss attributable to the noncontrolling interest                                                                  |                                        |           | 32         |              | 32           |
| NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED                                                    | \$ 39,357                              | \$ 55,204 | \$ 76,182  | \$ (131,386) | \$ 39,357    |
| AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED                                |                                        |           |            |              |              |

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|                                               |           |           |           |              |           |
|-----------------------------------------------|-----------|-----------|-----------|--------------|-----------|
| Income from continuing operations, net of tax | \$ 39,357 | \$ 55,204 | \$ 76,607 | \$ (131,386) | \$ 39,782 |
| Loss from discontinued operations             |           |           | (676)     |              | (676)     |
| Gain from sale of discontinued operations     |           |           | 251       |              | 251       |
| Net income                                    | \$ 39,357 | \$ 55,204 | \$ 76,182 | \$ (131,386) | \$ 39,357 |

40

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                                              | <b>For the Three Months Ended June 30, 2008</b> |             |              |                     |                     |
|----------------------------------------------------------------------------------------------|-------------------------------------------------|-------------|--------------|---------------------|---------------------|
|                                                                                              | <b>PTGI</b>                                     | <b>PTHI</b> | <b>Other</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| NET REVENUE                                                                                  | \$                                              | \$          | \$ 235,897   | \$                  | \$ 235,897          |
| OPERATING EXPENSES                                                                           |                                                 |             |              |                     |                     |
| Cost of revenue (exclusive of depreciation included below)                                   |                                                 |             | 142,495      |                     | 142,495             |
| Selling, general and administrative                                                          | 1,302                                           | 1,881       | 66,786       |                     | 69,969              |
| Depreciation and amortization                                                                |                                                 |             | 8,091        |                     | 8,091               |
| Loss on sale or disposal of assets                                                           |                                                 |             | 115          |                     | 115                 |
| Total operating expenses                                                                     | 1,302                                           | 1,881       | 217,487      |                     | 220,670             |
| INCOME (LOSS) FROM OPERATIONS                                                                | (1,302)                                         | (1,881)     | 18,410       |                     | 15,227              |
| INTEREST EXPENSE                                                                             | (1,391)                                         | (6,891)     | (5,272)      |                     | (13,554)            |
| ACCRETION ON DEBT PREMIUM (DISCOUNT)                                                         | (137)                                           |             | 354          |                     | 217                 |
| GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT                                 | 9,861                                           | 22,784      | (468)        |                     | 32,177              |
| INTEREST AND OTHER INCOME                                                                    | 5                                               |             | 2,122        |                     | 2,127               |
| FOREIGN CURRENCY TRANSACTION GAIN                                                            | 1,399                                           | 103         | 6,632        |                     | 8,134               |
| INTERCOMPANY INTEREST                                                                        | (4,815)                                         | 210         | 4,605        |                     |                     |
| MANAGEMENT FEE                                                                               |                                                 | 1,048       | (1,048)      |                     |                     |
| INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES                          | 3,620                                           | 15,373      | 25,335       |                     | 44,328              |
| INCOME TAX PREMIUM                                                                           | 294                                             | 1,558       | 530          |                     | 2,382               |
| INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES                                           | 3,914                                           | 16,931      | 25,865       |                     | 46,710              |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                                         | 42,610                                          | 25,679      |              | (68,289)            |                     |
| INCOME FROM CONTINUING OPERATIONS                                                            | 46,524                                          | 42,610      | 25,865       | (68,289)            | 46,710              |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                                                |                                                 |             | (21)         |                     | (21)                |
| NET INCOME                                                                                   | 46,524                                          | 42,610      | 25,844       | (68,289)            | 46,689              |
| Add: Net income attributable to the noncontrolling interest                                  |                                                 |             | (165)        |                     | (165)               |
| NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED                     | \$ 46,524                                       | \$ 42,610   | \$ 25,679    | \$ (68,289)         | \$ 46,524           |
| AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED |                                                 |             |              |                     |                     |
| Income from continuing operations, net of tax                                                | \$ 46,524                                       | \$ 42,610   | \$ 25,700    | \$ (68,289)         | \$ 46,545           |
| Loss from discontinued operations                                                            |                                                 |             | (21)         |                     | (21)                |
| Net income                                                                                   | \$ 46,524                                       | \$ 42,610   | \$ 25,679    | \$ (68,289)         | \$ 46,524           |



**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                                                     | <b>For the Six Months Ended June 30, 2008</b> |                  |                   |                     |                     |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------|------------------|-------------------|---------------------|---------------------|
|                                                                                                     | <b>PTGI</b>                                   | <b>PTHI</b>      | <b>Other</b>      | <b>Eliminations</b> | <b>Consolidated</b> |
| <b>NET REVENUE</b>                                                                                  | <b>\$</b>                                     | <b>\$</b>        | <b>\$ 461,331</b> | <b>\$</b>           | <b>\$ 461,331</b>   |
| <b>OPERATING EXPENSES</b>                                                                           |                                               |                  |                   |                     |                     |
| Cost of revenue (exclusive of depreciation included below)                                          |                                               |                  | 283,979           |                     | 283,979             |
| Selling, general and administrative                                                                 | 2,574                                         | 3,609            | 132,644           |                     | 138,827             |
| Depreciation and amortization                                                                       |                                               |                  | 16,050            |                     | 16,050              |
| Gain on sale or disposal of assets                                                                  |                                               |                  | (2,465)           |                     | (2,465)             |
| <b>Total operating expenses</b>                                                                     | <b>2,574</b>                                  | <b>3,609</b>     | <b>430,208</b>    |                     | <b>436,391</b>      |
| <b>INCOME (LOSS) FROM OPERATIONS</b>                                                                | <b>(2,574)</b>                                | <b>(3,609)</b>   | <b>31,123</b>     |                     | <b>24,940</b>       |
| <b>INTEREST EXPENSE</b>                                                                             | <b>(3,308)</b>                                | <b>(14,801)</b>  | <b>(10,638)</b>   |                     | <b>(28,747)</b>     |
| <b>ACCRETION ON DEBT PREMIUM (DISCOUNT)</b>                                                         | <b>(512)</b>                                  |                  | <b>699</b>        |                     | <b>187</b>          |
| <b>GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT</b>                                 | <b>12,070</b>                                 | <b>22,784</b>    | <b>(367)</b>      |                     | <b>34,487</b>       |
| <b>INTEREST AND OTHER INCOME</b>                                                                    | <b>15</b>                                     |                  | <b>3,174</b>      |                     | <b>3,189</b>        |
| <b>FOREIGN CURRENCY TRANSACTION GAIN</b>                                                            | <b>2,695</b>                                  | <b>472</b>       | <b>6,674</b>      |                     | <b>9,841</b>        |
| <b>INTERCOMPANY INTEREST</b>                                                                        | <b>(5,162)</b>                                | <b>(3,183)</b>   | <b>8,345</b>      |                     |                     |
| <b>MANAGEMENT FEE</b>                                                                               |                                               | <b>2,991</b>     | <b>(2,991)</b>    |                     |                     |
| <b>INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES</b>                          | <b>3,224</b>                                  | <b>4,654</b>     | <b>36,019</b>     |                     | <b>43,897</b>       |
| <b>INCOME TAX BENEFIT (EXPENSE)</b>                                                                 | <b>210</b>                                    | <b>1,087</b>     | <b>(1,335)</b>    |                     | <b>(38)</b>         |
| <b>INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES</b>                                           | <b>3,434</b>                                  | <b>5,741</b>     | <b>34,684</b>     |                     | <b>43,859</b>       |
| <b>EQUITY IN NET INCOME OF SUBSIDIARIES</b>                                                         | <b>40,091</b>                                 | <b>34,350</b>    |                   | <b>(74,441)</b>     |                     |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                                                            | <b>43,525</b>                                 | <b>40,091</b>    | <b>34,684</b>     | <b>(74,441)</b>     | <b>43,859</b>       |
| <b>LOSS FROM DISCONTINUED OPERATIONS, net of tax</b>                                                |                                               |                  | <b>(66)</b>       |                     | <b>(66)</b>         |
| <b>NET INCOME</b>                                                                                   | <b>43,525</b>                                 | <b>40,091</b>    | <b>34,618</b>     | <b>(74,441)</b>     | <b>43,793</b>       |
| <b>Less: Net income attributable to the noncontrolling interest</b>                                 |                                               |                  | <b>(268)</b>      |                     | <b>(268)</b>        |
| <b>NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED</b>                     | <b>\$ 43,525</b>                              | <b>\$ 40,091</b> | <b>\$ 34,350</b>  | <b>\$ (74,441)</b>  | <b>\$ 43,525</b>    |
| <b>AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED</b> |                                               |                  |                   |                     |                     |
| Income from continuing operations, net of tax                                                       | \$ 43,525                                     | \$ 40,091        | \$ 34,416         | \$ (74,441)         | \$ 43,591           |
| Loss from discontinued operations                                                                   |                                               |                  | (66)              |                     | (66)                |
| <b>Net income</b>                                                                                   | <b>\$ 43,525</b>                              | <b>\$ 40,091</b> | <b>\$ 34,350</b>  | <b>\$ (74,441)</b>  | <b>\$ 43,525</b>    |



**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED BALANCE SHEET****(in thousands)**

|                                                      | PTGI       | PTHI       | June 30, 2009<br>Other | Eliminations | Consolidated |
|------------------------------------------------------|------------|------------|------------------------|--------------|--------------|
| <b>ASSETS</b>                                        |            |            |                        |              |              |
| <b>CURRENT ASSETS:</b>                               |            |            |                        |              |              |
| Cash and cash equivalents                            | \$ 31      | \$ 17      | \$ 41,413              | \$           | \$ 41,461    |
| Accounts receivable                                  |            |            | 93,826                 |              | 93,826       |
| Prepaid expenses and other current assets            | 105        |            | 16,850                 |              | 16,955       |
| Total current assets                                 | 136        | 17         | 152,089                |              | 152,242      |
| INTERCOMPANY RECEIVABLES                             | 85,106     | 1,113,734  |                        | (1,198,840)  |              |
| INVESTMENTS IN SUBSIDIARIES                          | 50,737     | (640,641)  |                        | 589,904      |              |
| RESTRICTED CASH                                      |            |            | 9,467                  |              | 9,467        |
| PROPERTY AND EQUIPMENT Net                           |            |            | 117,840                |              | 117,840      |
| GOODWILL                                             |            |            | 35,351                 |              | 35,351       |
| OTHER INTANGIBLE ASSETS Net                          |            |            | 482                    |              | 482          |
| OTHER ASSETS                                         |            | 1,146      | 18,009                 |              | 19,155       |
| TOTAL ASSETS                                         | \$ 135,979 | \$ 474,256 | \$ 333,238             | \$ (608,936) | \$ 334,537   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b> |            |            |                        |              |              |
| <b>CURRENT LIABILITIES:</b>                          |            |            |                        |              |              |
| Accounts payable                                     | \$ 147     | \$ 1,303   | 49,440                 | \$           | \$ 50,890    |
| Accrued interconnection costs                        |            |            | 38,778                 |              | 38,778       |
| Deferred revenue                                     |            |            | 12,322                 |              | 12,322       |
| Accrued expenses and other current liabilities       | 9,053      | 79         | 44,850                 |              | 53,982       |
| Accrued income taxes                                 | 74         |            | 20,912                 |              | 20,986       |
| Accrued interest                                     |            | 19         |                        |              | 19           |
| Current portion of long-term obligations             |            | 95,750     | 11,347                 |              | 107,097      |
| Total current liabilities                            | 9,274      | 97,151     | 177,649                |              | 284,074      |
| INTERCOMPANY PAYABLES                                | 497,473    | 114,231    | 587,136                | (1,198,840)  |              |
| LONG-TERM OBLIGATIONS                                |            |            | 25,740                 |              | 25,740       |
| Total liabilities not subject to compromise          | 506,747    | 211,382    | 790,525                | (1,198,840)  | 309,814      |
| LIABILITIES SUBJECT TO COMPROMISE                    | 58,490     | 212,137    | 180,423                |              | 451,050      |
| Total liabilities                                    | 565,237    | 423,519    | 970,948                | (1,198,840)  | 760,864      |
| <b>COMMITMENTS AND CONTINGENCIES</b>                 |            |            |                        |              |              |
| <b>STOCKHOLDERS EQUITY (DEFICIT):</b>                |            |            |                        |              |              |
| Primus Telecommunications Group, Incorporated        |            |            |                        |              |              |
| Stockholders Deficit:                                |            |            |                        |              |              |
| Common stock                                         | 1,427      |            |                        |              | 1,427        |
| Additional paid-in capital                           | 718,983    | 1,161,930  | 232,294                | (1,394,224)  | 718,983      |

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|                                                                          |             |             |            |              |             |
|--------------------------------------------------------------------------|-------------|-------------|------------|--------------|-------------|
| Accumulated deficit                                                      | (1,060,452) | (1,022,778) | (793,225)  | 1,816,003    | (1,060,452) |
| Accumulated other comprehensive loss                                     | (89,216)    | (88,415)    | (79,710)   | 168,125      | (89,216)    |
| Total Primus Telecommunications Group, Incorporated stockholders deficit | (429,258)   | 50,737      | (640,641)  | 589,904      | (429,258)   |
| Noncontrolling interest                                                  |             |             | 2,931      |              | 2,931       |
| Total stockholders deficit                                               | (429,258)   | 50,737      | (637,710)  | 589,904      | (426,327)   |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)                      | \$ 135,979  | \$ 474,256  | \$ 333,238 | \$ (608,936) | \$ 334,537  |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED BALANCE SHEET****(in thousands)**

|                                                      | PTGI        | PTHI        | December 31, 2008<br>Other | Eliminations | Consolidated |
|------------------------------------------------------|-------------|-------------|----------------------------|--------------|--------------|
| <b>ASSETS</b>                                        |             |             |                            |              |              |
| <b>CURRENT ASSETS:</b>                               |             |             |                            |              |              |
| Cash and cash equivalents                            | \$ 152      | \$ (18)     | \$ 36,866                  | \$           | \$ 37,000    |
| Accounts receivable                                  |             |             | 99,483                     |              | 99,483       |
| Prepaid expenses and other current assets            | 288         | 149         | 15,409                     |              | 15,846       |
| Total current assets                                 | 440         | 131         | 151,758                    |              | 152,329      |
| INTERCOMPANY RECEIVABLES                             | 93,373      | 1,129,158   |                            | (1,222,531)  |              |
| INVESTMENTS IN SUBSIDIARIES                          | 2,636       | (709,720)   |                            | 707,084      |              |
| RESTRICTED CASH                                      |             |             | 8,133                      |              | 8,133        |
| PROPERTY AND EQUIPMENT Net                           |             |             | 112,152                    |              | 112,152      |
| GOODWILL                                             |             |             | 32,688                     |              | 32,688       |
| OTHER INTANGIBLE ASSETS Net                          |             |             | 746                        |              | 746          |
| OTHER ASSETS                                         | 393         | 4,607       | 19,396                     |              | 24,396       |
| TOTAL ASSETS                                         | \$ 96,842   | \$ 424,176  | \$ 324,873                 | \$ (515,447) | \$ 330,444   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b> |             |             |                            |              |              |
| <b>CURRENT LIABILITIES:</b>                          |             |             |                            |              |              |
| Accounts payable                                     | \$ 1,558    | \$ 154      | 56,959                     | \$           | \$ 58,671    |
| Accrued interconnection costs                        |             |             | 41,422                     |              | 41,422       |
| Deferred revenue                                     |             |             | 13,303                     |              | 13,303       |
| Accrued expenses and other current liabilities       | 168         | 834         | 41,438                     |              | 42,440       |
| Accrued income taxes                                 | 70          |             | 18,143                     |              | 18,213       |
| Accrued interest                                     | 1,067       | 7,714       | 1,467                      |              | 10,248       |
| Current portion of long-term obligations             | 56,482      | 307,371     | 200,944                    |              | 564,797      |
| Total current liabilities                            | 59,345      | 316,073     | 373,676                    |              | 749,094      |
| INTERCOMPANY PAYABLES                                | 499,036     | 105,467     | 618,028                    | (1,222,531)  |              |
| LONG-TERM OBLIGATIONS                                |             |             | 40,040                     |              | 40,040       |
| OTHER LIABILITIES                                    |             |             | 35                         |              | 35           |
| Total liabilities                                    | 558,381     | 421,540     | 1,031,779                  | (1,222,531)  | 789,169      |
| <b>COMMITMENTS AND CONTINGENCIES</b>                 |             |             |                            |              |              |
| <b>STOCKHOLDERS EQUITY (DEFICIT):</b>                |             |             |                            |              |              |
| Primus Telecommunications Group, Incorporated        |             |             |                            |              |              |
| Stockholders Deficit:                                |             |             |                            |              |              |
| Common stock                                         | 1,427       |             |                            |              | 1,427        |
| Additional paid-in capital                           | 718,956     | 1,161,930   | 232,294                    | (1,394,224)  | 718,956      |
| Accumulated deficit                                  | (1,099,809) | (1,077,982) | (869,407)                  | 1,947,389    | (1,099,809)  |
| Accumulated other comprehensive loss                 | (82,113)    | (81,312)    | (72,607)                   | 153,919      | (82,113)     |

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|                                                                              |                  |                   |                   |                     |                   |
|------------------------------------------------------------------------------|------------------|-------------------|-------------------|---------------------|-------------------|
| Total Primus Telecommunications Group,<br>Incorporated stockholders' deficit | (461,539)        | 2,636             | (709,720)         | 707,084             | (461,539)         |
| Noncontrolling interest                                                      |                  |                   | 2,814             |                     | 2,814             |
| Total stockholders' deficit                                                  | (461,539)        | 2,636             | (706,906)         | 707,084             | (458,725)         |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS<br/>EQUITY (DEFICIT)</b>               | <b>\$ 96,842</b> | <b>\$ 424,176</b> | <b>\$ 324,873</b> | <b>\$ (515,447)</b> | <b>\$ 330,444</b> |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS****(in thousands)**

|                                                                                                                   | PTGI      | For the Six Month Ended June 30, 2009 |           |              | Consolidated |
|-------------------------------------------------------------------------------------------------------------------|-----------|---------------------------------------|-----------|--------------|--------------|
|                                                                                                                   |           | PTHI                                  | Other     | Eliminations |              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                      |           |                                       |           |              |              |
| Net income                                                                                                        | \$ 39,357 | \$ 55,204                             | \$ 76,150 | \$ (131,386) | \$ 39,325    |
| Adjustments to reconcile net income to net cash provided by operating activities:                                 |           |                                       |           |              |              |
| Reorganization items, net                                                                                         | 4,285     | 3,906                                 | (16,488)  |              | (8,297)      |
| Provision for doubtful accounts receivable                                                                        |           |                                       | 5,140     |              | 5,140        |
| Stock compensation expense                                                                                        |           | 27                                    |           |              | 27           |
| Depreciation and amortization                                                                                     |           |                                       | 12,346    |              | 12,346       |
| Gain on sale or disposal of assets                                                                                |           |                                       | (294)     |              | (294)        |
| Accretion of debt (premium) discount                                                                              | 129       |                                       | (318)     |              | (189)        |
| Equity in net loss of subsidiary                                                                                  | (55,204)  | (76,150)                              |           | 131,354      |              |
| Minority interest share of loss                                                                                   |           | (32)                                  |           | 32           |              |
| Unrealized foreign currency transaction gain (loss) on intercompany and foreign debt                              | (2,636)   | 778                                   | (18,844)  |              | (20,702)     |
| Changes in assets and liabilities, net of acquisitions:                                                           |           |                                       |           |              |              |
| Decrease in accounts receivable                                                                                   |           |                                       | 7,798     |              | 7,798        |
| Decrease in prepaid expenses and other current assets                                                             | 183       | 149                                   | 129       |              | 461          |
| Decrease in other assets                                                                                          | 52        | 434                                   | 1,968     |              | 2,454        |
| Increase (decrease) in accounts payable                                                                           | (1,411)   | 1,149                                 | (12,532)  |              | (12,794)     |
| Decrease in accrued interconnection costs                                                                         |           |                                       | (5,361)   |              | (5,361)      |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities | 8,885     | (753)                                 | (6,819)   |              | 1,313        |
| Increase in accrued income taxes                                                                                  | 4         |                                       | 2,109     |              | 2,113        |
| Increase (decrease) in accrued interest                                                                           | 397       | (5,174)                               | 3,177     |              | (1,600)      |
| Net cash provided by (used in) operating activities before reorganization items                                   | (5,959)   | (20,462)                              | 48,161    |              | 21,740       |
| Cash effect of reorganization items                                                                               | (3,528)   | (2,384)                               | 1,317     |              | (4,595)      |
| Net cash provided by (used in) operating activities                                                               | (9,487)   | (22,846)                              | 49,478    |              | 17,145       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                      |           |                                       |           |              |              |
| Purchase of property and equipment                                                                                |           |                                       | (5,660)   |              | (5,660)      |
| Sale of property and equipment                                                                                    |           |                                       | 179       |              | 179          |
| Cash from disposition of business, net of cash disposed                                                           |           |                                       | 232       |              | 232          |
| Cash used in business acquisitions, net of cash acquired                                                          |           |                                       | (199)     |              | (199)        |
| Increase in restricted cash                                                                                       |           |                                       | (146)     |              | (146)        |
| Proceeds from intercompany balance                                                                                | 9,366     | 11,604                                |           | (20,970)     |              |
| Net cash provided by (used in) investing activities                                                               | 9,366     | 11,604                                | (5,594)   | (20,970)     | (5,594)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                      |           |                                       |           |              |              |
| Principal payments on long-term obligations                                                                       |           | (500)                                 | (7,792)   |              | (8,292)      |
| Proceeds from (payments on) intercompany balance                                                                  |           | 11,777                                | (32,747)  | 20,970       |              |

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|                                                               |       |        |           |        |           |
|---------------------------------------------------------------|-------|--------|-----------|--------|-----------|
| Net cash provided by (used in) financing activities           |       | 11,277 | (40,539)  | 20,970 | (8,292)   |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS |       |        | 1,202     |        | 1,202     |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                       | (121) | 35     | 4,547     |        | 4,461     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                | 152   | (18)   | 36,866    |        | 37,000    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                      | \$ 31 | \$ 17  | \$ 41,413 | \$     | \$ 41,461 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS****(in thousands)**

|                                                                                                                   | For Six Months Ended June 30, 2008 |           |           |              |              |
|-------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------|-----------|--------------|--------------|
|                                                                                                                   | PTGI                               | PTHI      | Other     | Eliminations | Consolidated |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                      |                                    |           |           |              |              |
| Net income                                                                                                        | \$ 43,525                          | \$ 40,091 | \$ 34,618 | \$ (74,441)  | \$ 43,793    |
| Adjustments to reconcile net income to net cash provided by operating activities:                                 |                                    |           |           |              |              |
| Provision for doubtful accounts receivable                                                                        |                                    |           | 5,696     |              | 5,696        |
| Stock compensation expense                                                                                        |                                    | 132       |           |              | 132          |
| Depreciation and amortization                                                                                     |                                    |           | 16,056    |              | 16,056       |
| Gain on sale or disposal of assets                                                                                |                                    |           | (2,465)   |              | (2,465)      |
| Accretion of debt (premium) discount                                                                              | 512                                |           | (699)     |              | (187)        |
| Equity in net income of subsidiary                                                                                | (40,091)                           | (34,618)  |           | 74,709       |              |
| Minority interest share of income                                                                                 |                                    | 268       |           | (268)        |              |
| Deferred income taxes                                                                                             |                                    | 450       | 2,395     |              | 2,845        |
| Gain (loss) on early extinguishment or restructuring of debt                                                      | (12,070)                           | (22,784)  | 367       |              | (34,487)     |
| Unrealized foreign currency transaction gain on intercompany and foreign debt                                     | (2,684)                            | (487)     | (6,457)   |              | (9,628)      |
| Changes in assets and liabilities, net of acquisitions:                                                           |                                    |           |           |              |              |
| Increase in accounts receivable                                                                                   |                                    |           | (6,388)   |              | (6,388)      |
| (Increase) decrease in prepaid expenses and other current assets                                                  | 185                                | (4)       | 11,053    |              | 11,234       |
| (Increase) decrease in other assets                                                                               | 388                                | 579       | (62)      |              | 905          |
| Decrease in accounts payable                                                                                      | (447)                              | (239)     | (15,953)  |              | (16,639)     |
| Increase in accrued interconnection costs                                                                         |                                    |           | 3,159     |              | 3,159        |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities | 67                                 | (235)     | (3,179)   |              | (3,347)      |
| Decrease in accrued income taxes                                                                                  | (222)                              | (1,522)   | (2,711)   |              | (4,455)      |
| Increase (decrease) in accrued interest                                                                           | (871)                              | (223)     | 173       |              | (921)        |
| Net cash provided by (used in) operating activities                                                               | (11,708)                           | (18,592)  | 35,603    |              | 5,303        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                      |                                    |           |           |              |              |
| Purchase of property and equipment                                                                                |                                    |           | (14,599)  |              | (14,599)     |
| Sale of property and equipment                                                                                    |                                    |           | 805       |              | 805          |
| Cash from disposition of business, net of cash disposed                                                           |                                    |           | 1,676     |              | 1,676        |
| Cash used in business acquisitions, net of cash acquired                                                          |                                    |           | (34)      |              | (34)         |
| Decrease in restricted cash                                                                                       |                                    |           | 103       |              | 103          |
| Proceeds from intercompany balance                                                                                | 27,636                             | 17,339    |           | (44,975)     |              |
| Net cash provided by (used in) investing activities                                                               | 27,636                             | 17,339    | (12,049)  | (44,975)     | (12,049)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                      |                                    |           |           |              |              |
| Purchase of the Company's debt securities                                                                         | (11,217)                           |           |           |              | (11,217)     |
| Principal payments on long-term obligations                                                                       | (1,200)                            | (5,232)   | (1,855)   |              | (8,287)      |
| Proceeds from (payments on) intercompany balance                                                                  |                                    | 6,447     | (51,422)  | 44,975       |              |
| Net cash provided by (used in) financing activities                                                               | (12,417)                           | 1,215     | (53,277)  | 44,975       | (19,504)     |

|                                                               |          |         |           |     |    |          |
|---------------------------------------------------------------|----------|---------|-----------|-----|----|----------|
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS |          |         |           | 518 |    | 518      |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                       | 3,511    | (38)    | (29,205)  |     |    | (25,732) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                | 1,299    | (35)    | 80,018    |     |    | 81,282   |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                      | \$ 4,810 | \$ (73) | \$ 50,813 | \$  | \$ | 55,550   |

## **Table of Contents**

### **Consolidating Financial Statements for IHC Debt Issuance**

Primus Telecommunications IHC, Inc.'s 14 1/4% Senior Secured Notes are fully, unconditionally, jointly and severally guaranteed by Group on a senior basis as of June 30, 2009 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. As discussed in Note 2, on March 16, 2009, Holding, Group, and IHC filed for bankruptcy. Accordingly, the following consolidating condensed financial information as of June 30, 2009 and 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.

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****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                                                  | For the Three Month Ended June 30, 2009 |           |                           |                               |              |              |
|--------------------------------------------------------------------------------------------------|-----------------------------------------|-----------|---------------------------|-------------------------------|--------------|--------------|
|                                                                                                  | PTGI                                    | IHC       | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| NET REVENUE                                                                                      | \$                                      | \$        | \$ 30,470                 | \$ 166,272                    | \$           | \$ 196,742   |
| OPERATING EXPENSES                                                                               |                                         |           |                           |                               |              |              |
| Cost of revenue (exclusive of depreciation included below)                                       |                                         |           | 23,291                    | 102,623                       |              | 125,914      |
| Selling, general and administrative                                                              | 3,599                                   | 4         | 6,015                     | 40,782                        |              | 50,400       |
| Depreciation and amortization                                                                    |                                         |           | 638                       | 5,612                         |              | 6,250        |
| (Gain) loss on sale or disposal of assets                                                        |                                         |           | (119)                     | 135                           |              | 16           |
| Total operating expenses                                                                         | 3,599                                   | 4         | 29,825                    | 149,152                       |              | 182,580      |
| INCOME (LOSS) FROM OPERATIONS                                                                    | (3,599)                                 | (4)       | 645                       | 17,120                        |              | 14,162       |
| INTEREST EXPENSE                                                                                 |                                         |           | (2,242)                   | (1,117)                       |              | (3,359)      |
| INTEREST AND OTHER INCOME                                                                        |                                         |           | 3                         | 158                           |              | 161          |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                                                         | 2,699                                   | 9,405     | (565)                     | 12,631                        |              | 24,170       |
| INTERCOMPANY INTEREST                                                                            | (2,091)                                 | 7,340     | (4,397)                   | (852)                         |              |              |
| MANAGEMENT FEE                                                                                   |                                         |           | 3,023                     | (3,023)                       |              |              |
| ROYALTY FEE                                                                                      |                                         | 2,768     |                           | (2,768)                       |              |              |
| INCOME (LOSS) BEFORE REORGANIZATION ITEMS, INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES | (2,991)                                 | 19,509    | (3,533)                   | 22,149                        |              | 35,134       |
| REORGANIZATION ITEMS NET                                                                         | (6,580)                                 | (1)       | (1,691)                   | 1                             |              | (8,271)      |
| INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES                         | (9,571)                                 | 19,508    | (5,224)                   | 22,150                        |              | 26,863       |
| INCOME TAX EXPENSE                                                                               |                                         | (197)     | 617                       | (1,530)                       |              | (1,110)      |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES                                        | (9,571)                                 | 19,311    | (4,607)                   | 20,620                        |              | 25,753       |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                                             | 34,937                                  |           | 41,885                    |                               | (76,822)     |              |
| INCOME FROM CONTINUING OPERATIONS                                                                | 25,366                                  | 19,311    | 37,278                    | 20,620                        | (76,822)     | 25,753       |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                                                    |                                         |           |                           |                               | (283)        | (283)        |
| NET INCOME                                                                                       | 25,366                                  | 19,311    | 37,278                    | 20,337                        | (76,822)     | 25,470       |
| Less: Net income attributable to the noncontrolling interest                                     |                                         |           |                           |                               | (104)        | (104)        |
| NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED                         | \$ 25,366                               | \$ 19,311 | \$ 37,278                 | \$ 20,233                     | \$ (76,822)  | \$ 25,366    |

AMOUNTS ATTRIBUTABLE TO COMMON  
SHAREHOLDERS OF PRIMUS  
TELECOMMUNICATIONS GROUP,  
INCORPORATED

|                                               |           |           |           |           |             |           |
|-----------------------------------------------|-----------|-----------|-----------|-----------|-------------|-----------|
| Income from continuing operations, net of tax | \$ 25,366 | \$ 19,311 | \$ 37,278 | \$ 20,516 | \$ (76,822) | \$ 25,649 |
| Loss from discontinued operations             |           |           |           | (283)     |             | (283)     |
| Net income                                    | \$ 25,366 | \$ 19,311 | \$ 37,278 | \$ 20,233 | \$ (76,822) | \$ 25,366 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                                                        | <b>For the Six Month Ended June 30, 2009</b> |            |                                   |                                       |                     |                     |
|--------------------------------------------------------------------------------------------------------|----------------------------------------------|------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
|                                                                                                        | <b>PTGI</b>                                  | <b>IHC</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| 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,<br>INCOME TAXES AND EQUITY IN NET INCOME OF<br>SUBSIDIARIES | (7,098)                                      | 25,139     | (13,600)                          | 30,919                                |                     | 35,360              |
| REORGANIZATION ITEMS NET                                                                               | (8,749)                                      | 22,642     | (5,597)                           | 1                                     |                     | 8,297               |
| INCOME (LOSS) BEFORE INCOME TAX AND EQUITY IN<br>NET INCOME OF SUBSIDIARIES                            | (15,847)                                     | 47,781     | (19,197)                          | 30,920                                |                     | 43,657              |
| INCOME TAX EXPENSE                                                                                     |                                              | (380)      | (53)                              | (3,474)                               |                     | (3,907)             |
| INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF<br>SUBSIDIARIES                                           | (15,847)                                     | 47,401     | (19,250)                          | 27,446                                |                     | 39,750              |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                                                   | 55,204                                       |            | 76,182                            |                                       | (131,386)           |                     |
| INCOME FROM CONTINUING OPERATIONS                                                                      | 39,357                                       | 47,401     | 56,932                            | 27,446                                | (131,386)           | 39,750              |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                                                          |                                              |            |                                   | (676)                                 |                     | (676)               |
| GAIN FROM SALE OF DISCONTINUED OPERATIONS, net<br>of tax                                               |                                              |            |                                   | 251                                   |                     | 251                 |
| NET INCOME                                                                                             | 39,357                                       | 47,401     | 56,932                            | 27,021                                | (131,386)           | 39,325              |
| Less: Net loss attributable to the noncontrolling interest                                             |                                              |            |                                   | 32                                    |                     | 32                  |
| NET INCOME ATTRIBUTABLE TO PRIMUS<br>TELECOMMUNICATIONS GROUP, INCORPORATED                            | \$ 39,357                                    | \$ 47,401  | \$ 56,932                         | \$ 27,053                             | \$ (131,386)        | \$ 39,357           |
| AMOUNTS ATTRIBUTABLE TO COMMON<br>SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS<br>GROUP, INCORPORATED     |                                              |            |                                   |                                       |                     |                     |
| Income from continuing operations, net of tax                                                          | \$ 39,357                                    | \$ 47,401  | \$ 56,932                         | \$ 27,478                             | \$ (131,386)        | \$ 39,782           |

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|                                           |           |           |           |           |              |           |       |
|-------------------------------------------|-----------|-----------|-----------|-----------|--------------|-----------|-------|
| Loss from discontinued operations         |           |           |           |           | (676)        |           | (676) |
| Gain from sale of discontinued operations |           |           |           |           | 251          |           | 251   |
| Net income                                | \$ 39,357 | \$ 47,401 | \$ 56,932 | \$ 27,053 | \$ (131,386) | \$ 39,357 |       |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                          | For Three Months Ended June 30, 2008 |          |                           |                               |              |              |
|--------------------------------------------------------------------------|--------------------------------------|----------|---------------------------|-------------------------------|--------------|--------------|
|                                                                          | PTGI                                 | IHC      | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| NET REVENUE                                                              | \$                                   | \$       | \$ 34,664                 | \$ 201,233                    | \$           | \$ 235,897   |
| OPERATING EXPENSES                                                       |                                      |          |                           |                               |              |              |
| Cost of revenue (exclusive of depreciation included below)               |                                      |          | 28,027                    | 114,468                       |              | 142,495      |
| Selling, general and administrative                                      | 1,302                                | 83       | 9,230                     | 59,354                        |              | 69,969       |
| Depreciation and amortization                                            |                                      |          | 815                       | 7,276                         |              | 8,091        |
| (Gain) loss on sale or disposal of assets                                |                                      |          | (5)                       | 120                           |              | 115          |
| Total operating expenses                                                 | 1,302                                | 83       | 38,067                    | 181,218                       |              | 220,670      |
| INCOME (LOSS) FROM OPERATIONS                                            | (1,302)                              | (83)     | (3,403)                   | 20,015                        |              | 15,227       |
| INTEREST EXPENSE                                                         | (1,391)                              | (3,932)  | (6,894)                   | (1,337)                       |              | (13,554)     |
| ACCRETION ON DEBT PREMIUM (DISCOUNT)                                     | (137)                                | 354      |                           |                               |              | 217          |
| INCOME (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT           | 9,861                                | (468)    | 22,784                    |                               |              | 32,177       |
| INTEREST AND OTHER INCOME                                                | 5                                    |          | 2                         | 2,120                         |              | 2,127        |
| FOREIGN CURRENCY TRANSACTION GAIN                                        | 1,399                                | 2,762    | 116                       | 3,857                         |              | 8,134        |
| INTERCOMPANY INTEREST                                                    | (4,815)                              | 169      | 210                       | 4,436                         |              |              |
| MANAGEMENT FEE                                                           |                                      |          | 1,146                     | (1,146)                       |              |              |
| ROYALTY FEE                                                              |                                      | 3,549    | 136                       | (3,685)                       |              |              |
| INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES      | 3,620                                | 2,351    | 14,097                    | 24,260                        |              | 44,328       |
| INCOME TAX PREMIUM                                                       | 294                                  | 935      | 1,129                     | 24                            |              | 2,382        |
| INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES                       | 3,914                                | 3,286    | 15,226                    | 24,284                        |              | 46,710       |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                     | 42,610                               |          | 25,679                    |                               | (68,289)     |              |
| INCOME FROM CONTINUING OPERATIONS                                        | 46,524                               | 3,286    | 40,905                    | 24,284                        | (68,289)     | 46,710       |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                            |                                      |          |                           |                               | (21)         | (21)         |
| NET INCOME                                                               | 46,524                               | 3,286    | 40,905                    | 24,263                        | (68,289)     | 46,689       |
| less: Net loss attributable to noncontrolling interest                   |                                      |          |                           | (165)                         |              | (165)        |
| NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED | \$ 46,524                            | \$ 3,286 | \$ 40,905                 | \$ 24,098                     | \$ (68,289)  | \$ 46,524    |

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS

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## TELECOMMUNICATIONS GROUP, INCORPORATED

|                                               |           |          |           |           |             |           |
|-----------------------------------------------|-----------|----------|-----------|-----------|-------------|-----------|
| Income from continuing operations, net of tax | \$ 46,524 | \$ 3,286 | \$ 40,905 | \$ 24,119 | \$ (68,289) | \$ 46,545 |
| Loss from discontinued operations             |           |          |           | (21)      |             | (21)      |
| Net income                                    | \$ 46,524 | \$ 3,286 | \$ 40,905 | \$ 24,098 | \$ (68,289) | \$ 46,524 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                                 | <b>For Six Months Ended June 30, 2008</b> |                 |                                   |                                       |                     |                     |
|---------------------------------------------------------------------------------|-------------------------------------------|-----------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
|                                                                                 | <b>PTGI</b>                               | <b>IHC</b>      | <b>Guarantor<br/>Subsidiaries</b> | <b>Non Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| <b>NET REVENUE</b>                                                              | <b>\$</b>                                 | <b>\$</b>       | <b>\$ 69,697</b>                  | <b>\$ 391,634</b>                     | <b>\$</b>           | <b>\$ 461,331</b>   |
| <b>OPERATING EXPENSES</b>                                                       |                                           |                 |                                   |                                       |                     |                     |
| Cost of revenue (exclusive of depreciation included below)                      |                                           |                 | 55,590                            | 228,389                               |                     | 283,979             |
| Selling, general and administrative                                             | 2,574                                     | 118             | 18,076                            | 118,059                               |                     | 138,827             |
| Depreciation and amortization                                                   |                                           |                 | 1,681                             | 14,369                                |                     | 16,050              |
| Loss on sale or disposal of assets                                              |                                           |                 | (805)                             | (1,660)                               |                     | (2,465)             |
| <b>Total operating expenses</b>                                                 | <b>2,574</b>                              | <b>118</b>      | <b>74,542</b>                     | <b>359,157</b>                        |                     | <b>436,391</b>      |
| <b>INCOME (LOSS) FROM OPERATIONS</b>                                            | <b>(2,574)</b>                            | <b>(118)</b>    | <b>(4,845)</b>                    | <b>32,477</b>                         |                     | <b>24,940</b>       |
| <b>INTEREST EXPENSE</b>                                                         | <b>(3,308)</b>                            | <b>(7,804)</b>  | <b>(14,972)</b>                   | <b>(2,663)</b>                        |                     | <b>(28,747)</b>     |
| <b>ACCRETION ON DEBT PREMIUM (DISCOUNT)</b>                                     | <b>(512)</b>                              | <b>699</b>      |                                   |                                       |                     | <b>187</b>          |
| <b>INCOME (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT</b>           | <b>12,070</b>                             | <b>(475)</b>    | <b>22,784</b>                     | <b>108</b>                            |                     | <b>34,487</b>       |
| <b>INTEREST AND OTHER INCOME</b>                                                | <b>15</b>                                 |                 | <b>(5)</b>                        | <b>3,179</b>                          |                     | <b>3,189</b>        |
| <b>FOREIGN CURRENCY TRANSACTION GAIN</b>                                        | <b>2,695</b>                              | <b>3,488</b>    | <b>514</b>                        | <b>3,144</b>                          |                     | <b>9,841</b>        |
| <b>INTERCOMPANY INTEREST</b>                                                    | <b>(5,162)</b>                            | <b>5,859</b>    | <b>(3,183)</b>                    | <b>2,486</b>                          |                     |                     |
| <b>MANAGEMENT FEE</b>                                                           |                                           |                 | <b>3,251</b>                      | <b>(3,251)</b>                        |                     |                     |
| <b>ROYALTY FEE</b>                                                              |                                           | <b>7,306</b>    |                                   | <b>(7,306)</b>                        |                     |                     |
| <b>INCOME BEFORE INCOME TAXES AND EQUITY</b>                                    |                                           |                 |                                   |                                       |                     |                     |
| <b>IN NET INCOME OF SUBSIDIARIES</b>                                            | <b>3,224</b>                              | <b>8,955</b>    | <b>3,544</b>                      | <b>28,174</b>                         |                     | <b>43,897</b>       |
| <b>INCOME TAX BENEFIT (EXPENSE)</b>                                             | <b>210</b>                                | <b>470</b>      | <b>625</b>                        | <b>(1,343)</b>                        |                     | <b>(38)</b>         |
| <b>INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES</b>                       | <b>3,434</b>                              | <b>9,425</b>    | <b>4,169</b>                      | <b>26,831</b>                         |                     | <b>43,859</b>       |
| <b>EQUITY IN NET INCOME OF SUBSIDIARIES</b>                                     | <b>40,091</b>                             |                 | <b>34,350</b>                     |                                       | <b>(74,441)</b>     |                     |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                                        | <b>43,525</b>                             | <b>9,425</b>    | <b>38,519</b>                     | <b>26,831</b>                         | <b>(74,441)</b>     | <b>43,859</b>       |
| <b>LOSS FROM DISCONTINUED OPERATIONS, net of tax</b>                            |                                           |                 |                                   |                                       | <b>(66)</b>         | <b>(66)</b>         |
| <b>NET INCOME</b>                                                               | <b>43,525</b>                             | <b>9,425</b>    | <b>38,519</b>                     | <b>26,765</b>                         | <b>(74,441)</b>     | <b>43,793</b>       |
| <b>Less: Net income attributable to the noncontrolling interest</b>             |                                           |                 |                                   |                                       | <b>(268)</b>        | <b>(268)</b>        |
| <b>NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED</b> | <b>\$ 43,525</b>                          | <b>\$ 9,425</b> | <b>\$ 38,519</b>                  | <b>\$ 26,497</b>                      | <b>\$ (74,441)</b>  | <b>\$ 43,525</b>    |

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## AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

|                                               |           |          |           |           |             |           |
|-----------------------------------------------|-----------|----------|-----------|-----------|-------------|-----------|
| Income from continuing operations, net of tax | \$ 43,525 | \$ 9,425 | \$ 38,519 | \$ 26,563 | \$ (74,441) | \$ 43,591 |
| Loss from discontinued operations             |           |          |           | (66)      |             | (66)      |
| Net income                                    | \$ 43,525 | \$ 9,425 | \$ 38,519 | \$ 26,497 | \$ (74,441) | \$ 43,525 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED BALANCE SHEET****(in thousands)**

|                                                      | June 30, 2009 |            |                           |                               |                |              |
|------------------------------------------------------|---------------|------------|---------------------------|-------------------------------|----------------|--------------|
|                                                      | PTGI          | IHC        | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations   | Consolidated |
| <b>ASSETS</b>                                        |               |            |                           |                               |                |              |
| <b>CURRENT ASSETS:</b>                               |               |            |                           |                               |                |              |
| Cash and cash equivalents                            | \$ 31         | \$         | \$ 10,709                 | \$ 30,721                     | \$             | \$ 41,461    |
| Accounts receivable                                  |               |            | 9,659                     | 84,167                        |                | 93,826       |
| Prepaid expenses and other current assets            | 105           |            | 1,378                     | 15,472                        |                | 16,955       |
| Total current assets                                 | 136           |            | 21,746                    | 130,360                       |                | 152,242      |
| INTERCOMPANY RECEIVABLES                             | 85,106        | 312,661    | 613,762                   | 101,496                       | (1,113,025)    |              |
| INVESTMENTS IN SUBSIDIARIES                          | 50,737        |            | (64,955)                  |                               | 14,218         |              |
| RESTRICTED CASH                                      |               |            | 253                       | 9,214                         |                | 9,467        |
| PROPERTY AND EQUIPMENT Net                           |               |            | 12,839                    | 105,001                       |                | 117,840      |
| GOODWILL                                             |               |            |                           | 35,351                        |                | 35,351       |
| OTHER INTANGIBLE ASSETS Net                          |               |            |                           | 482                           |                | 482          |
| OTHER ASSETS                                         |               |            | 1,123                     | 18,032                        |                | 19,155       |
| TOTAL ASSETS                                         | \$ 135,979    | \$ 312,661 | \$ 584,768                | \$ 399,936                    | \$ (1,098,807) | \$ 334,537   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b> |               |            |                           |                               |                |              |
| <b>CURRENT LIABILITIES:</b>                          |               |            |                           |                               |                |              |
| Accounts payable                                     | \$ 147        | \$         | \$ 4,274                  | \$ 46,469                     | \$             | \$ 50,890    |
| Accrued interconnection costs                        |               |            | 14,694                    | 24,084                        |                | 38,778       |
| Deferred revenue                                     |               |            | 549                       | 11,773                        |                | 12,322       |
| Accrued expenses and other current liabilities       | 9,053         |            | 5,198                     | 39,731                        |                | 53,982       |
| Accrued income taxes                                 | 74            | 3,942      | 571                       | 16,399                        |                | 20,986       |
| Accrued interest                                     |               |            | 19                        |                               |                | 19           |
| Current portion of long-term obligations             |               |            | 95,838                    | 11,259                        |                | 107,097      |
| Total current liabilities                            | 9,274         | 3,942      | 121,143                   | 149,715                       |                | 284,074      |
| INTERCOMPANY PAYABLES                                | 497,473       |            | 200,627                   | 414,925                       | (1,113,025)    |              |
| LONG-TERM OBLIGATIONS                                |               |            | 124                       | 25,616                        |                | 25,740       |
| Total liabilities not subject to compromise          | 506,747       | 3,942      | 321,894                   | 590,256                       | (1,113,025)    | 309,814      |
| LIABILITIES SUBJECT TO COMPROMISE                    | 58,490        | 180,423    | 212,137                   |                               |                | 451,050      |
| Total liabilities                                    | 565,237       | 184,365    | 534,031                   | 590,256                       | (1,113,025)    | 760,864      |
| <b>COMMITMENTS AND CONTINGENCIES</b>                 |               |            |                           |                               |                |              |
| <b>STOCKHOLDERS EQUITY (DEFICIT):</b>                |               |            |                           |                               |                |              |
| Primus Telecommunications Group, Incorporated        |               |            |                           |                               |                |              |
| Stockholders Deficit:                                |               |            |                           |                               |                |              |
| Common stock                                         | 1,427         |            |                           |                               |                | 1,427        |
| Additional paid-in capital                           | 718,983       |            | 1,161,930                 | 232,825                       | (1,394,755)    | 718,983      |
| Accumulated deficit                                  | (1,060,452)   | 128,296    | (1,022,778)               | (341,621)                     | 1,236,103      | (1,060,452)  |
| Accumulated other comprehensive loss                 | (89,216)      |            | (88,415)                  | (84,455)                      | 172,870        | (89,216)     |

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|                                                     |            |            |            |            |                |            |  |
|-----------------------------------------------------|------------|------------|------------|------------|----------------|------------|--|
| Total Primus Telecommunications Group, Incorporated |            |            |            |            |                |            |  |
| stockholders' deficit                               | (429,258)  | 128,296    | 50,737     | (193,251)  | 14,218         | (429,258)  |  |
| Noncontrolling interest                             |            |            |            | 2,931      |                | 2,931      |  |
| Total stockholders' deficit                         | (429,258)  | 128,296    | 50,737     | (190,320)  | 14,218         | (426,327)  |  |
| TOTAL LIABILITIES AND STOCKHOLDERS                  |            |            |            |            |                |            |  |
| EQUITY (DEFICIT)                                    | \$ 135,979 | \$ 312,661 | \$ 584,768 | \$ 399,936 | \$ (1,098,807) | \$ 334,537 |  |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED BALANCE SHEET****(in thousands)**

|                                                      | December 31, 2008 |            |                           |                               |              |              |
|------------------------------------------------------|-------------------|------------|---------------------------|-------------------------------|--------------|--------------|
|                                                      | PTGI              | IHC        | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| <b>ASSETS</b>                                        |                   |            |                           |                               |              |              |
| <b>CURRENT ASSETS:</b>                               |                   |            |                           |                               |              |              |
| Cash and cash equivalents                            | \$ 152            | \$         | \$ 3,551                  | \$ 33,297                     | \$           | \$ 37,000    |
| Accounts receivable                                  |                   |            | 14,224                    | 85,259                        |              | 99,483       |
| Prepaid expenses and other current assets            | 288               |            | 1,705                     | 13,853                        |              | 15,846       |
| Total current assets                                 | 440               |            | 19,480                    | 132,409                       |              | 152,329      |
| INTERCOMPANY RECEIVABLES                             | 93,373            | 284,190    | 641,341                   | 95,409                        | (1,114,313)  |              |
| INVESTMENTS IN SUBSIDIARIES                          | 2,636             |            | (132,306)                 |                               | 129,670      |              |
| RESTRICTED CASH                                      |                   |            | 314                       | 7,819                         |              | 8,133        |
| PROPERTY AND EQUIPMENT Net                           |                   |            | 14,041                    | 98,111                        |              | 112,152      |
| GOODWILL                                             |                   |            |                           | 32,688                        |              | 32,688       |
| OTHER INTANGIBLE ASSETS Net                          |                   |            |                           | 746                           |              | 746          |
| OTHER ASSETS                                         | 393               | 230        | 5,326                     | 18,447                        |              | 24,396       |
| TOTAL ASSETS                                         | \$ 96,842         | \$ 284,420 | \$ 548,196                | \$ 385,629                    | \$ (984,643) | \$ 330,444   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b> |                   |            |                           |                               |              |              |
| <b>CURRENT LIABILITIES:</b>                          |                   |            |                           |                               |              |              |
| Accounts payable                                     | \$ 1,558          | \$         | \$ 4,775                  | \$ 52,338                     | \$           | \$ 58,671    |
| Accrued interconnection costs                        |                   |            | 16,462                    | 24,960                        |              | 41,422       |
| Deferred revenue                                     |                   |            | 1,225                     | 12,078                        |              | 13,303       |
| Accrued expenses and other current liabilities       | 168               |            | 6,432                     | 35,840                        |              | 42,440       |
| Accrued income taxes                                 | 70                | 3,243      | 1,220                     | 13,680                        |              | 18,213       |
| Accrued interest                                     | 1,067             | 1,321      | 7,714                     | 146                           |              | 10,248       |
| Current portion of long-term obligations             | 56,482            | 198,961    | 307,463                   | 1,891                         |              | 564,797      |
| Total current liabilities                            | 59,345            | 203,525    | 345,291                   | 140,933                       |              | 749,094      |
| INTERCOMPANY PAYABLES                                | 499,036           |            | 200,132                   | 415,145                       | (1,114,313)  |              |
| LONG-TERM OBLIGATIONS                                |                   |            | 137                       | 39,903                        |              | 40,040       |
| OTHER LIABILITIES                                    |                   |            |                           | 35                            |              | 35           |
| Total liabilities                                    | 558,381           | 203,525    | 545,560                   | 596,016                       | (1,114,313)  | 789,169      |
| <b>COMMITMENTS AND CONTINGENCIES</b>                 |                   |            |                           |                               |              |              |
| <b>STOCKHOLDERS EQUITY (DEFICIT):</b>                |                   |            |                           |                               |              |              |
| Primus Telecommunications Group, Incorporated        |                   |            |                           |                               |              |              |
| Stockholders Deficit:                                |                   |            |                           |                               |              |              |
| Common stock                                         | 1,427             |            |                           |                               |              | 1,427        |
| Additional paid-in capital                           | 718,956           |            | 1,161,930                 | 232,359                       | (1,394,289)  | 718,956      |
| Accumulated deficit                                  | (1,099,809)       | 80,895     | (1,077,982)               | (368,208)                     | 1,365,295    | (1,099,809)  |

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|                                                                              |                  |                   |                   |                   |                     |                   |
|------------------------------------------------------------------------------|------------------|-------------------|-------------------|-------------------|---------------------|-------------------|
| Accumulated other comprehensive loss                                         | (82,113)         |                   | (81,312)          | (77,352)          | 158,664             | (82,113)          |
| Total Primus Telecommunications Group,<br>Incorporated stockholders' deficit | (461,539)        | 80,895            | 2,636             | (213,201)         | 129,670             | (461,539)         |
| Noncontrolling interest                                                      |                  |                   |                   | 2,814             |                     | 2,814             |
| Total stockholders' deficit                                                  | (461,539)        | 80,895            | 2,636             | (210,387)         | 129,670             | (458,725)         |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS<br/>EQUITY (DEFICIT)</b>               | <b>\$ 96,842</b> | <b>\$ 284,420</b> | <b>\$ 548,196</b> | <b>\$ 385,629</b> | <b>\$ (984,643)</b> | <b>\$ 330,444</b> |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

(in thousands)

|                                                                                                                  | For the Six Months Ended June 30, 2009 |           |                           |                               |              |              |
|------------------------------------------------------------------------------------------------------------------|----------------------------------------|-----------|---------------------------|-------------------------------|--------------|--------------|
|                                                                                                                  | PTGI                                   | IHC       | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                     |                                        |           |                           |                               |              |              |
| Net income                                                                                                       | \$ 39,357                              | \$ 47,401 | \$ 56,932                 | \$ 27,021                     | \$ (131,386) | \$ 39,325    |
| Adjustments to reconcile net income to net cash provided by operating activities:                                |                                        |           |                           |                               |              |              |
| Reorganization items, net                                                                                        | 4,285                                  | (22,642)  | 3,906                     | 6,154                         |              | (8,297)      |
| Provision for doubtful accounts receivable                                                                       |                                        |           | 937                       | 4,203                         |              | 5,140        |
| Stock compensation expense                                                                                       |                                        |           | 27                        |                               |              | 27           |
| Depreciation and amortization                                                                                    |                                        |           | 1,317                     | 11,029                        |              | 12,346       |
| Gain on sale or disposal of assets                                                                               |                                        |           | (177)                     | (117)                         |              | (294)        |
| Accretion of debt (premium) discount                                                                             | 129                                    | (318)     |                           |                               |              | (189)        |
| Equity in net income of subsidiary                                                                               | (55,204)                               |           | (76,150)                  |                               | 131,354      |              |
| Minority interest share of loss                                                                                  |                                        |           | (32)                      |                               | 32           |              |
| Deferred income taxes                                                                                            |                                        |           | 141                       | (141)                         |              |              |
| Unrealized foreign currency transaction gain (loss) on intercompany and foreign debt                             | (2,636)                                | (8,668)   | 778                       | (10,176)                      |              | (20,702)     |
| Changes in assets and liabilities, net of acquisitions:                                                          |                                        |           |                           |                               |              |              |
| Decrease in accounts receivable                                                                                  |                                        |           | 3,628                     | 4,170                         |              | 7,798        |
| (Increase) decrease in prepaid expenses and other current assets                                                 | 183                                    |           | 327                       | (49)                          |              | 461          |
| Decrease in other assets                                                                                         | 52                                     | 17        | 1,036                     | 1,349                         |              | 2,454        |
| (Increase) decrease in intercompany balance                                                                      |                                        | (6,885)   | 15,765                    | (8,880)                       |              |              |
| Decrease in accounts payable                                                                                     | (1,411)                                |           | (500)                     | (10,883)                      |              | (12,794)     |
| Decrease in accrued interconnection costs                                                                        |                                        |           | (1,768)                   | (3,593)                       |              | (5,361)      |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities | 8,885                                  |           | (1,910)                   | (5,662)                       |              | 1,313        |
| Increase (decrease) in accrued income taxes                                                                      | 4                                      | 699       | (649)                     | 2,059                         |              | 2,113        |
| Increase (decrease) in accrued interest                                                                          | 397                                    | 3,314     | (5,174)                   | (137)                         |              | (1,600)      |
| Net cash provided by (used in) operating activities before reorganization items                                  | (5,959)                                | 12,918    | (1,566)                   | 16,347                        |              | 21,740       |
| Cash effect of reorganization items                                                                              | (3,528)                                |           | (2,384)                   | 1,317                         |              | (4,595)      |
| Net cash provided by (used in) operating activities                                                              | (9,487)                                | 12,918    | (3,950)                   | 17,664                        |              | 17,145       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                     |                                        |           |                           |                               |              |              |
| Purchase of property and equipment                                                                               |                                        |           | (115)                     | (5,545)                       |              | (5,660)      |
| Sale of property and equipment and intangible assets                                                             |                                        |           | 177                       | 2                             |              | 179          |
| Cash from disposition of business, net of cash disposed                                                          |                                        |           |                           | 232                           |              | 232          |
| Cash used for business acquisitions, net of cash acquired                                                        |                                        |           |                           | (199)                         |              | (199)        |
| Increase in restricted cash                                                                                      |                                        |           | 61                        | (207)                         |              | (146)        |
| Proceeds from intercompany balance                                                                               | 9,366                                  |           | 7,992                     |                               | (17,358)     |              |
| Net cash provided by (used in) investing activities                                                              | 9,366                                  |           | 8,115                     | (5,717)                       | (17,358)     | (5,594)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                     |                                        |           |                           |                               |              |              |
| Principal payments on other long-term obligations                                                                |                                        |           | (517)                     | (7,775)                       |              | (8,292)      |
| Proceeds from (payments on) intercompany balance                                                                 |                                        | (12,918)  | 3,510                     | (7,950)                       | 17,358       |              |

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|                                                               |          |           |           |        |           |
|---------------------------------------------------------------|----------|-----------|-----------|--------|-----------|
| Net cash provided by (used in) financing activities           | (12,918) | 2,993     | (15,725)  | 17,358 | (8,292)   |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS |          |           | 1,202     |        | 1,202     |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                       | (121)    | 7,158     | (2,576)   |        | 4,461     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                | 152      | 3,551     | 33,297    |        | 37,000    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                      | \$ 31    | \$ 10,709 | \$ 30,721 | \$     | \$ 41,461 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

(in thousands)

|                                                                                                                  | For Six Months Ended June 30, 2008 |          |                           |                               |              |              |
|------------------------------------------------------------------------------------------------------------------|------------------------------------|----------|---------------------------|-------------------------------|--------------|--------------|
|                                                                                                                  | PTGI                               | IHC      | Guarantor<br>Subsidiaries | Non Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                     |                                    |          |                           |                               |              |              |
| Net income                                                                                                       | \$ 43,525                          | \$ 9,425 | \$ 38,519                 | \$ 26,765                     | \$ (74,441)  | \$ 43,793    |
| Adjustments to reconcile net income to net cash provided by operating activities:                                |                                    |          |                           |                               |              |              |
| Provision for doubtful accounts receivable                                                                       |                                    |          | 1,132                     | 4,564                         |              | 5,696        |
| Stock compensation expense                                                                                       |                                    |          | 132                       |                               |              | 132          |
| Depreciation and amortization                                                                                    |                                    |          | 1,681                     | 14,375                        |              | 16,056       |
| Gain on sale or disposal of assets                                                                               |                                    |          | (805)                     | (1,660)                       |              | (2,465)      |
| Accretion of debt (premium) discount                                                                             | 512                                | (699)    |                           |                               |              | (187)        |
| Equity in net (income) loss of subsidiary                                                                        | (40,091)                           |          | (34,618)                  |                               | 74,709       |              |
| Minority interest share of income                                                                                |                                    |          | 268                       |                               | (268)        |              |
| Deferred income taxes                                                                                            |                                    |          | 591                       | 2,254                         |              | 2,845        |
| (Gain) loss on early extinguishment or restructuring of debt                                                     | (12,070)                           | 475      | (22,784)                  | (108)                         |              | (34,487)     |
| Unrealized foreign currency transaction gain on intercompany and foreign debt                                    | (2,684)                            | (3,249)  | (487)                     | (3,208)                       |              | (9,628)      |
| Changes in assets and liabilities, net of acquisitions:                                                          |                                    |          |                           |                               |              |              |
| Increase in accounts receivable                                                                                  |                                    |          | (1,403)                   | (4,985)                       |              | (6,388)      |
| Decrease in prepaid expenses and other current assets                                                            | 185                                |          | 106                       | 10,943                        |              | 11,234       |
| (Increase) decrease in other assets                                                                              | 388                                | 11       | 518                       | (12)                          |              | 905          |
| (Increase) decrease in intercompany balance                                                                      |                                    | (4,499)  | (6,218)                   | 10,717                        |              |              |
| Decrease in accounts payable                                                                                     | (447)                              |          | (486)                     | (15,706)                      |              | (16,639)     |
| Increase in accrued interconnection costs                                                                        |                                    |          | 2,355                     | 804                           |              | 3,159        |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities | 67                                 | (4)      | (1,718)                   | (1,692)                       |              | (3,347)      |
| Decrease in accrued income taxes                                                                                 | (222)                              | (710)    | (1,271)                   | (2,252)                       |              | (4,455)      |
| Increase (decrease) in accrued interest                                                                          | (871)                              | 59       | (223)                     | 114                           |              | (921)        |
| Net cash provided by (used in) operating activities                                                              | (11,708)                           | 809      | (24,711)                  | 40,913                        |              | 5,303        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                     |                                    |          |                           |                               |              |              |
| Purchase of property and equipment                                                                               |                                    |          | (450)                     | (14,149)                      |              | (14,599)     |
| Sale of property and equipment                                                                                   |                                    |          | 805                       |                               |              | 805          |
| Cash from disposition of business, net of cash disposed                                                          |                                    |          |                           | 1,676                         |              | 1,676        |
| Cash used for business acquisitions, net of cash acquired                                                        |                                    |          |                           | (34)                          |              | (34)         |
| Decrease in restricted cash                                                                                      |                                    |          |                           | 103                           |              | 103          |
| Proceeds from intercompany balance                                                                               | 27,636                             |          | 14,409                    |                               | (42,045)     |              |
| Net cash provided by (used in) investing activities                                                              | 27,636                             |          | 14,764                    | (12,404)                      | (42,045)     | (12,049)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                     |                                    |          |                           |                               |              |              |
| Purchase of the Company's debt securities                                                                        | (11,217)                           |          |                           |                               |              | (11,217)     |
| Principal payments on other long-term obligations                                                                | (1,200)                            | (3)      | (5,245)                   | (1,839)                       |              | (8,287)      |
| Proceeds from (payments on) intercompany balance                                                                 |                                    | (806)    | 14,765                    | (56,004)                      | 42,045       |              |
| Net cash provided by (used in) financing activities                                                              | (12,417)                           | (809)    | 9,520                     | (57,843)                      | 42,045       | (19,504)     |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS                                                    |                                    |          |                           | 518                           |              | 518          |

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|                                                |          |        |           |           |
|------------------------------------------------|----------|--------|-----------|-----------|
| NET CHANGE IN CASH AND CASH EQUIVALENTS        | 3,511    | (427)  | (28,816)  | (25,732)  |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,299    | 670    | 79,313    | 81,282    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD       | \$ 4,810 | \$ 243 | \$ 50,497 | \$ 55,550 |

**Table of Contents**

**14. CONDENSED COMBINED FINANCIAL STATEMENTS**

As discussed in Note 1, on March 16, 2009, the four Debtors filed for bankruptcy. Accordingly, the following condensed combined financial information as of June 30, 2009 and 2008 are included for (a) the Debtors on a combined basis; (b) the non-Debtors on a combined basis; and (c) Group on a consolidated basis.

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

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                                                        | For the Three Months Ended June 30, 2009 |                     |              |              |
|--------------------------------------------------------------------------------------------------------|------------------------------------------|---------------------|--------------|--------------|
|                                                                                                        | Debtor Entities                          | Non-Debtor Entities | Eliminations | Consolidated |
| NET REVENUE                                                                                            | \$                                       | \$ 196,742          | \$           | \$ 196,742   |
| OPERATING EXPENSES                                                                                     |                                          |                     |              |              |
| Cost of revenue (exclusive of depreciation included below)                                             |                                          | 125,914             |              | 125,914      |
| Selling, general and administrative                                                                    | 4,600                                    | 45,800              |              | 50,400       |
| Depreciation and amortization                                                                          |                                          | 6,250               |              | 6,250        |
| Gain on sale or disposal of assets                                                                     |                                          | 16                  |              | 16           |
| Total operating expenses                                                                               | 4,600                                    | 177,980             |              | 182,580      |
| INCOME (LOSS) FROM OPERATIONS                                                                          | (4,600)                                  | 18,762              |              | 14,162       |
| INTEREST EXPENSE OR RESTRUCTURING OF DEBT                                                              | (2,240)                                  | (1,119)             |              | (3,359)      |
| INTEREST AND OTHER INCOME                                                                              |                                          | 161                 |              | 161          |
| FOREIGN CURRENCY TRANSACTION GAIN                                                                      | 20,465                                   | 3,705               |              | 24,170       |
| INTERCOMPANY INTEREST                                                                                  | 912                                      | (912)               |              |              |
| MANAGEMENT FEE                                                                                         | 2,960                                    | (2,960)             |              |              |
| ROYALTY FEE                                                                                            | 2,768                                    | (2,768)             |              |              |
| INCOME (LOSS) BEFORE REORGANIZATION ITEMS,<br>INCOME TAXES AND EQUITY IN NET INCOME OF<br>SUBSIDIARIES | 20,265                                   | 14,869              |              | 35,134       |
| REORGANIZATION ITEMS NET                                                                               | (8,271)                                  |                     |              | (8,271)      |
| INCOME BEFORE INCOME TAX AND EQUITY IN NET<br>INCOME OF SUBSIDIARIES                                   | 11,994                                   | 14,869              |              | 26,863       |
| INCOME TAX EXPENSE                                                                                     | (399)                                    | (711)               |              | (1,110)      |
| INCOME BEFORE EQUITY IN NET INCOME OF<br>SUBSIDIARIES                                                  | 11,595                                   | 14,158              |              | 25,753       |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                                                   | 13,771                                   |                     | (13,771)     |              |
| INCOME FROM CONTINUING OPERATIONS                                                                      | 25,366                                   | 14,158              | (13,771)     | 25,753       |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                                                          |                                          | (283)               |              | (283)        |
| NET INCOME                                                                                             | 25,366                                   | 13,875              | (13,771)     | 25,470       |
| Less: Net income attributable to the noncontrolling interest                                           |                                          | (104)               |              | (104)        |
| NET INCOME ATTRIBUTABLE TO PRIMUS<br>TELECOMMUNICATIONS GROUP, INCORPORATED                            | \$ 25,366                                | \$ 13,771           | \$ (13,771)  | \$ 25,366    |
| AMOUNTS ATTRIBUTABLE TO COMMON<br>SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS<br>GROUP, INCORPORATED     |                                          |                     |              |              |
| Income from continuing operations, net of tax                                                          | \$ 25,366                                | \$ 14,054           | \$ (13,771)  | \$ 25,649    |

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|                                   |           |    |        |             |           |
|-----------------------------------|-----------|----|--------|-------------|-----------|
| Loss from discontinued operations |           |    | (283)  |             | (283)     |
| Net income                        | \$ 25,366 | \$ | 13,771 | \$ (13,771) | \$ 25,366 |

57

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                                                        | <b>For the Six Months Ended June 30, 2009</b> |                            |                     |                     |
|--------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------|---------------------|---------------------|
|                                                                                                        | <b>Debtor Entities</b>                        | <b>Non-Debtor Entities</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| NET REVENUE                                                                                            | \$                                            | \$ 391,216                 | \$                  | \$ 391,216          |
| OPERATING EXPENSES                                                                                     |                                               |                            |                     |                     |
| Cost of revenue (exclusive of depreciation included below)                                             |                                               | 255,288                    |                     | 255,288             |
| Selling, general and administrative                                                                    | 6,666                                         | 89,170                     |                     | 95,836              |
| Depreciation and amortization                                                                          |                                               | 12,346                     |                     | 12,346              |
| Gain on sale or disposal of assets                                                                     |                                               | (43)                       |                     | (43)                |
| Total operating expenses                                                                               | 6,666                                         | 356,761                    |                     | 363,427             |
| INCOME (LOSS) FROM OPERATIONS                                                                          | (6,666)                                       | 34,455                     |                     | 27,789              |
| INTEREST EXPENSE                                                                                       | (11,988)                                      | (2,147)                    |                     | (14,135)            |
| ACCRETION ON DEBT PREMIUM (DISCOUNT)                                                                   | 189                                           |                            |                     | 189                 |
| GAIN ON EARLY EXTINGUISHMENT OR<br>RESTRUCTURING OF DEBT                                               |                                               |                            |                     |                     |
| INTEREST AND OTHER INCOME                                                                              |                                               | 396                        |                     | 396                 |
| FOREIGN CURRENCY TRANSACTION GAIN                                                                      | 18,279                                        | 2,842                      |                     | 21,121              |
| INTERCOMPANY INTEREST                                                                                  | 1,731                                         | (1,731)                    |                     |                     |
| MANAGEMENT FEE                                                                                         | 4,009                                         | (4,009)                    |                     |                     |
| ROYALTY FEE                                                                                            | 5,277                                         | (5,277)                    |                     |                     |
| INCOME (LOSS) BEFORE REORGANIZATION ITEMS,<br>INCOME TAXES AND EQUITY IN NET INCOME OF<br>SUBSIDIARIES | 10,831                                        | 24,529                     |                     | 35,360              |
| REORGANIZATION ITEMS NET                                                                               | 8,297                                         |                            |                     | 8,297               |
| INCOME BEFORE INCOME TAX AND EQUITY IN NET<br>INCOME OF SUBSIDIARIES                                   | 19,128                                        | 24,529                     |                     | 43,657              |
| INCOME TAX EXPENSE                                                                                     | (773)                                         | (3,134)                    |                     | (3,907)             |
| INCOME BEFORE EQUITY IN NET INCOME OF<br>SUBSIDIARIES                                                  | 18,355                                        | 21,395                     |                     | 39,750              |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                                                   | 21,002                                        |                            | (21,002)            |                     |
| INCOME FROM CONTINUING OPERATIONS                                                                      | 39,357                                        | 21,395                     | (21,002)            | 39,750              |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                                                          |                                               | (676)                      |                     | (676)               |
| GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of<br>tax                                               |                                               | 251                        |                     | 251                 |
| NET INCOME                                                                                             | 39,357                                        | 20,970                     | (21,002)            | 39,325              |
| Less: Net loss attributable to the noncontrolling interest                                             |                                               | 32                         |                     | 32                  |
| NET INCOME ATTRIBUTABLE TO PRIMUS<br>TELECOMMUNICATIONS GROUP, INCORPORATED                            | \$ 39,357                                     | \$ 21,002                  | \$ (21,002)         | \$ 39,357           |

AMOUNTS ATTRIBUTABLE TO COMMON  
SHAREHOLDERS OF PRIMUS TELECOMMUNICATIONS  
GROUP, INCORPORATED

|                                               |           |           |             |           |
|-----------------------------------------------|-----------|-----------|-------------|-----------|
| Income from continuing operations, net of tax | \$ 39,357 | \$ 21,427 | \$ (21,002) | \$ 39,782 |
| Loss from discontinued operations             |           | (676)     |             | (676)     |
| Gain from sale of discontinued operations     |           | 251       |             | 251       |
| Net income                                    | \$ 39,357 | \$ 21,002 | \$ (21,002) | \$ 39,357 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                          | <b>For the Three months Ended June 30, 2008</b> |                            |                     |                     |
|--------------------------------------------------------------------------|-------------------------------------------------|----------------------------|---------------------|---------------------|
|                                                                          | <b>Debtor Entities</b>                          | <b>Non-Debtor Entities</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| NET REVENUE                                                              | \$                                              | \$ 235,897                 | \$                  | \$ 235,897          |
| OPERATING EXPENSES                                                       |                                                 |                            |                     |                     |
| Cost of revenue (exclusive of depreciation included below)               |                                                 | 142,495                    |                     | 142,495             |
| Selling, general and administrative                                      | 3,344                                           | 66,625                     |                     | 69,969              |
| Depreciation and amortization                                            |                                                 | 8,091                      |                     | 8,091               |
| Gain on sale or disposal of assets                                       |                                                 | 115                        |                     | 115                 |
| Total operating expenses                                                 | 3,344                                           | 217,326                    |                     | 220,670             |
| INCOME (LOSS) FROM OPERATIONS                                            | (3,344)                                         | 18,571                     |                     | 15,227              |
| INTEREST EXPENSE                                                         | (12,214)                                        | (1,340)                    |                     | (13,554)            |
| ACCRETION ON DEBT PREMIUM (DISCOUNT)                                     | 217                                             |                            |                     | 217                 |
| GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT                    | 32,177                                          |                            |                     | 32,177              |
| INTEREST AND OTHER INCOME                                                | 97                                              | 2,030                      |                     | 2,127               |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                                 | 7,779                                           | 355                        |                     | 8,134               |
| INTERCOMPANY INTEREST                                                    | (9,548)                                         | 9,548                      |                     |                     |
| MANAGEMENT FEE                                                           | 1,048                                           | (1,048)                    |                     |                     |
| ROYALTY FEE                                                              | 3,549                                           | (3,549)                    |                     |                     |
| INCOME BEFORE INCOME TAX AND EQUITY IN NET INCOME OF SUBSIDIARIES        | 19,761                                          | 24,567                     |                     | 44,328              |
| INCOME TAX BENEFIT (EXPENSE)                                             | 2,633                                           | (251)                      |                     | 2,382               |
| INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES                       | 22,394                                          | 24,316                     |                     | 46,710              |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                     | 24,130                                          |                            | (24,130)            |                     |
| INCOME FROM CONTINUING OPERATIONS                                        | 46,524                                          | 24,316                     | (24,130)            | 46,710              |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                            |                                                 | (21)                       |                     | (21)                |
| NET INCOME                                                               | 46,524                                          | 24,295                     | (24,130)            | 46,689              |
| Less: Net income attributable to the noncontrolling interest             |                                                 | (165)                      |                     | (165)               |
| NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED | \$ 46,524                                       | \$ 24,130                  | \$ (24,130)         | \$ 46,524           |

AMOUNTS ATTRIBUTABLE TO COMMON  
 SHAREHOLDERS OF PRIMUS  
 TELECOMMUNICATIONS GROUP,

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## INCORPORATED

|                                               |           |           |             |           |
|-----------------------------------------------|-----------|-----------|-------------|-----------|
| Income from continuing operations, net of tax | \$ 46,524 | \$ 24,151 | \$ (24,130) | \$ 46,545 |
| Loss from discontinued operations             |           | (21)      |             | (21)      |
| Net income                                    | \$ 46,524 | \$ 24,130 | \$ (24,130) | \$ 46,524 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****(in thousands)**

|                                                                          | For the Six months Ended June 30, 2008 |                     |              |              |
|--------------------------------------------------------------------------|----------------------------------------|---------------------|--------------|--------------|
|                                                                          | Debtor Entities                        | Non-Debtor Entities | Eliminations | Consolidated |
| NET REVENUE                                                              | \$                                     | \$ 461,331          | \$           | \$ 461,331   |
| OPERATING EXPENSES                                                       |                                        |                     |              |              |
| Cost of revenue (exclusive of depreciation included below)               |                                        | 283,979             |              | 283,979      |
| Selling, general and administrative                                      | 6,379                                  | 132,448             |              | 138,827      |
| Depreciation and amortization                                            |                                        | 16,050              |              | 16,050       |
| Gain on sale or disposal of assets                                       |                                        | (2,465)             |              | (2,465)      |
| Total operating expenses                                                 | 6,379                                  | 430,012             |              | 436,391      |
| INCOME (LOSS) FROM OPERATIONS                                            | (6,379)                                | 31,319              |              | 24,940       |
| INTEREST EXPENSE                                                         | (25,913)                               | (2,834)             |              | (28,747)     |
| ACCRETION ON DEBT PREMIUM                                                | 187                                    |                     |              | 187          |
| GAIN ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT                    | 34,379                                 | 108                 |              | 34,487       |
| INTEREST AND OTHER INCOME                                                | 406                                    | 2,783               |              | 3,189        |
| FOREIGN CURRENCY TRANSACTION GAIN (LOSS)                                 | 10,815                                 | (974)               |              | 9,841        |
| INTERCOMPANY INTEREST                                                    | (5,276)                                | 5,276               |              |              |
| MANAGEMENT FEE                                                           | 2,991                                  | (2,991)             |              |              |
| ROYALTY FEE                                                              | 7,306                                  | (7,306)             |              |              |
| INCOME BEFORE INCOME TAX AND EQUITY IN                                   |                                        |                     |              |              |
| NET INCOME OF SUBSIDIARIES                                               | 18,516                                 | 25,381              |              | 43,897       |
| INCOME TAX BENEFIT (EXPENSE)                                             | 798                                    | (836)               |              | (38)         |
| INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES                       | 19,314                                 | 24,545              |              | 43,859       |
| EQUITY IN NET INCOME OF SUBSIDIARIES                                     | 24,211                                 |                     | (24,211)     |              |
| INCOME FROM CONTINUING OPERATIONS                                        | 43,525                                 | 24,545              | (24,211)     | 43,859       |
| LOSS FROM DISCONTINUED OPERATIONS, net of tax                            |                                        | (66)                |              | (66)         |
| NET INCOME                                                               | 43,525                                 | 24,479              | (24,211)     | 43,793       |
| Less: Net income attributable to the noncontrolling interest             |                                        | (268)               |              | (268)        |
| NET INCOME ATTRIBUTABLE TO PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED | \$ 43,525                              | \$ 24,211           | \$ (24,211)  | \$ 43,525    |

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF PRIMUS

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## TELECOMMUNICATIONS GROUP, INCORPORATED

|                                               |           |           |             |           |
|-----------------------------------------------|-----------|-----------|-------------|-----------|
| Income from continuing operations, net of tax | \$ 43,525 | \$ 24,277 | \$ (24,211) | \$ 43,591 |
| Loss from discontinued operations             |           | (66)      |             | (66)      |
| Net income                                    | \$ 43,525 | \$ 24,211 | \$ (24,211) | \$ 43,525 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED BALANCE SHEET****(in thousands)**

|                                                | June 30, 2009   |                     |              |              |
|------------------------------------------------|-----------------|---------------------|--------------|--------------|
|                                                | Debtor Entities | Non-Debtor Entities | Eliminations | Consolidated |
| <b>ASSETS</b>                                  |                 |                     |              |              |
| CURRENT ASSETS:                                |                 |                     |              |              |
| Cash and cash equivalents                      | \$ 64           | \$ 41,397           | \$           | \$ 41,461    |
| Accounts receivable                            |                 | 93,826              |              | 93,826       |
| Prepaid expenses and other current assets      | 105             | 16,850              |              | 16,955       |
| Total current assets                           | 169             | 152,073             |              | 152,242      |
| INTERCOMPANY RECEIVABLES                       | 1,087,557       |                     | (1,087,557)  |              |
| INVESTMENTS IN SUBSIDIARIES                    | (951,416)       |                     | 951,416      |              |
| RESTRICTED CASH                                |                 | 9,467               |              | 9,467        |
| PROPERTY AND EQUIPMENT Net                     |                 | 117,840             |              | 117,840      |
| GOODWILL                                       |                 | 35,351              |              | 35,351       |
| OTHER INTANGIBLE ASSETS Net                    |                 | 482                 |              | 482          |
| OTHER ASSETS                                   | 1,146           | 18,009              |              | 19,155       |
| TOTAL ASSETS                                   | \$ 137,456      | \$ 333,222          | \$ (136,141) | \$ 334,537   |
| <b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>    |                 |                     |              |              |
| CURRENT LIABILITIES:                           |                 |                     |              |              |
| Accounts payable                               | \$ 1,450        | \$ 49,440           | \$           | \$ 50,890    |
| Accrued interconnection costs                  |                 | 38,778              |              | 38,778       |
| Deferred revenue                               |                 | 12,322              |              | 12,322       |
| Accrued expenses and other current liabilities | 9,133           | 44,849              |              | 53,982       |
| Accrued income taxes                           | 9,312           | 11,674              |              | 20,986       |
| Accrued interest                               | 19              |                     |              | 19           |
| Current portion of long-term obligations       | 95,750          | 11,347              |              | 107,097      |
| Total current liabilities                      | 115,664         | 168,410             |              | 284,074      |
| INTERCOMPANY PAYABLES                          |                 | 1,087,557           | (1,087,557)  |              |
| LONG-TERM OBLIGATIONS                          |                 | 25,740              |              | 25,740       |
| Total liabilities not subject to compromise    | 115,664         | 1,281,707           | (1,087,557)  | 309,814      |
| LIABILITIES SUBJECT TO COMPROMISE              | 451,050         |                     |              | 451,050      |
| Total liabilities                              | 566,714         | 1,281,707           | (1,087,557)  | 760,864      |
| <b>COMMITMENTS AND CONTINGENCIES</b>           |                 |                     |              |              |
| <b>STOCKHOLDERS DEFICIT:</b>                   |                 |                     |              |              |
| Primus Telecommunications Group, Incorporated  |                 |                     |              |              |
| Stockholders Deficit:                          |                 |                     |              |              |
| Common stock                                   | 1,427           |                     |              | 1,427        |
| Additional paid-in capital                     | 718,983         | 339,849             | (339,849)    | 718,983      |
| Accumulated deficit                            | (1,060,452)     | (1,219,277)         | 1,219,277    | (1,060,452)  |

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|                                                                          |            |            |              |            |
|--------------------------------------------------------------------------|------------|------------|--------------|------------|
| Accumulated other comprehensive loss                                     | (89,216)   | (71,988)   | 71,988       | (89,216)   |
| Total Primus Telecommunications Group, Incorporated stockholders deficit | (429,258)  | (951,416)  | 951,416      | (429,258)  |
| Noncontrolling interest                                                  |            | 2,931      |              | 2,931      |
| Total stockholders deficit                                               | (429,258)  | (948,485)  | 951,416      | (426,327)  |
| TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT                               | \$ 137,456 | \$ 333,222 | \$ (136,141) | \$ 334,537 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED BALANCE SHEET****(in thousands)**

|                                                      | December 31, 2008 |                     |              |              |
|------------------------------------------------------|-------------------|---------------------|--------------|--------------|
|                                                      | Debtor Entities   | Non-Debtor Entities | Eliminations | Consolidated |
| <b>ASSETS</b>                                        |                   |                     |              |              |
| <b>CURRENT ASSETS:</b>                               |                   |                     |              |              |
| Cash and cash equivalents                            | \$ 9,554          | \$ 27,446           | \$           | \$ 37,000    |
| Accounts receivable                                  |                   | 99,483              |              | 99,483       |
| Prepaid expenses and other current assets            | 437               | 15,409              |              | 15,846       |
| Total current assets                                 | 9,991             | 142,338             |              | 152,329      |
| INTERCOMPANY RECEIVABLES                             | 1,072,953         |                     | (1,072,953)  |              |
| INVESTMENTS IN SUBSIDIARIES                          | (965,313)         |                     | 965,313      |              |
| RESTRICTED CASH                                      |                   | 8,133               |              | 8,133        |
| PROPERTY AND EQUIPMENT Net                           |                   | 112,152             |              | 112,152      |
| GOODWILL                                             |                   | 32,688              |              | 32,688       |
| OTHER INTANGIBLE ASSETS Net                          |                   | 746                 |              | 746          |
| OTHER ASSETS                                         | 5,230             | 19,166              |              | 24,396       |
| TOTAL ASSETS                                         | \$ 122,861        | \$ 315,223          | \$ (107,640) | \$ 330,444   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b> |                   |                     |              |              |
| <b>CURRENT LIABILITIES:</b>                          |                   |                     |              |              |
| Accounts payable                                     | \$ 1,712          | \$ 56,959           | \$           | \$ 58,671    |
| Accrued interconnection costs                        |                   | 41,422              |              | 41,422       |
| Deferred revenue                                     |                   | 13,303              |              | 13,303       |
| Accrued expenses and other current liabilities       | 1,005             | 41,435              |              | 42,440       |
| Accrued income taxes                                 | 8,767             | 9,446               |              | 18,213       |
| Accrued interest                                     | 10,102            | 146                 |              | 10,248       |
| Current portion of long-term obligations             | 562,814           | 1,983               |              | 564,797      |
| Total current liabilities                            | 584,400           | 164,694             |              | 749,094      |
| INTERCOMPANY PAYABLES                                |                   | 1,072,953           | (1,072,953)  |              |
| LONG-TERM OBLIGATIONS                                |                   | 40,040              |              | 40,040       |
| OTHER LIABILITIES                                    |                   | 35                  |              | 35           |
| Total liabilities not subject to compromise          | 584,400           | 1,277,722           | (1,072,953)  | 789,169      |
| <b>LIABILITIES SUBJECT TO COMPROMISE</b>             |                   |                     |              |              |
| Total liabilities                                    | 584,400           | 1,277,722           | (1,072,953)  | 789,169      |
| <b>COMMITMENTS AND CONTINGENCIES</b>                 |                   |                     |              |              |
| <b>STOCKHOLDERS EQUITY (DEFICIT):</b>                |                   |                     |              |              |
| Primus Telecommunications Group, Incorporated        |                   |                     |              |              |
| Stockholders Deficit:                                |                   |                     |              |              |
| Common stock                                         | 1,427             |                     |              | 1,427        |

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|                                                                           |             |             |              |             |
|---------------------------------------------------------------------------|-------------|-------------|--------------|-------------|
| Additional paid-in capital                                                | 718,956     | 339,849     | (339,849)    | 718,956     |
| Accumulated deficit                                                       | (1,099,809) | (1,240,278) | 1,240,278    | (1,099,809) |
| Accumulated other comprehensive loss                                      | (82,113)    | (64,884)    | 64,884       | (82,113)    |
| Total Primus Telecommunications Group, Incorporated stockholders' deficit | (461,539)   | (965,313)   | 965,313      | (461,539)   |
| Noncontrolling interest                                                   |             | 2,814       |              | 2,814       |
| Total stockholders' deficit                                               | (461,539)   | (962,499)   | 965,313      | (458,725)   |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)                      | \$ 122,861  | \$ 315,223  | \$ (107,640) | \$ 330,444  |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS****(in thousands)**

|                                                                                                                  | For the Six Months Ended June 30, 2009 |                     |              |              |
|------------------------------------------------------------------------------------------------------------------|----------------------------------------|---------------------|--------------|--------------|
|                                                                                                                  | Debtor Entities                        | Non-Debtor Entities | Eliminations | Consolidated |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                     |                                        |                     |              |              |
| Net income                                                                                                       | \$ 39,357                              | \$ 20,970           | \$ (21,002)  | \$ 39,325    |
| Adjustments to reconcile net income to net cash provided by operating activities:                                |                                        |                     |              |              |
| Reorganization items, net                                                                                        | (14,452)                               | 6,155               |              | (8,297)      |
| Provision for doubtful accounts receivable                                                                       |                                        | 5,140               |              | 5,140        |
| Stock compensation expense                                                                                       | 27                                     |                     |              | 27           |
| Depreciation and amortization                                                                                    |                                        | 12,346              |              | 12,346       |
| Gain on sale or disposal of assets                                                                               |                                        | (294)               |              | (294)        |
| Accretion of debt (premium) discount                                                                             | (189)                                  |                     |              | (189)        |
| Equity in net income of subsidiary                                                                               | (21,002)                               |                     | 21,002       |              |
| Unrealized foreign currency transaction loss on intercompany and foreign debt                                    | (18,896)                               | (1,806)             |              | (20,702)     |
| Changes in assets and liabilities, net of acquisitions:                                                          |                                        |                     |              |              |
| Decrease in accounts receivable                                                                                  |                                        | 7,798               |              | 7,798        |
| Decrease in prepaid expenses and other current assets                                                            | 332                                    | 129                 |              | 461          |
| Decrease in other assets                                                                                         | 503                                    | 1,951               |              | 2,454        |
| Increase in intercompany balance                                                                                 |                                        |                     |              |              |
| Decrease in accounts payable                                                                                     | (262)                                  | (12,532)            |              | (12,794)     |
| Decrease in accrued interconnection costs                                                                        |                                        | (5,361)             |              | (5,361)      |
| Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities | 8,132                                  | (6,819)             |              | 1,313        |
| Increase in accrued income taxes                                                                                 | 545                                    | 1,568               |              | 2,113        |
| Decrease in accrued interest                                                                                     | (1,463)                                | (137)               |              | (1,600)      |
| Net cash provided by (used in) operating activities before reorganization items                                  | (7,368)                                | 29,108              |              | 21,740       |
| Cash effect of reorganization items                                                                              | (5,911)                                | 1,316               |              | (4,595)      |
| Net cash provided by (used in) operating activities                                                              | (13,279)                               | 30,424              |              | 17,145       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                     |                                        |                     |              |              |
| Purchase of property and equipment                                                                               |                                        | (5,660)             |              | (5,660)      |
| Sale of property and equipment and intangible assets                                                             |                                        | 179                 |              | 179          |
| Cash from disposition of business, net of cash disposed                                                          |                                        | 232                 |              | 232          |
| Cash used for business acquisitions, net of cash acquired                                                        |                                        | (199)               |              | (199)        |
| Increase in restricted cash                                                                                      |                                        | (146)               |              | (146)        |
| Proceeds from intercompany balance                                                                               | 4,289                                  |                     | (4,289)      |              |
| Net cash provided by (used in) investing activities                                                              | 4,289                                  | (5,594)             | (4,289)      | (5,594)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                     |                                        |                     |              |              |
| Principal payments on other long-term obligations                                                                | (500)                                  | (7,792)             |              | (8,292)      |
| Payments on intercompany balance                                                                                 |                                        | (4,289)             | 4,289        |              |

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|                                                               |         |           |       |           |
|---------------------------------------------------------------|---------|-----------|-------|-----------|
| Net cash provided by (used in) financing activities           | (500)   | (12,081)  | 4,289 | (8,292)   |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS |         | 1,202     |       | 1,202     |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                       | (9,490) | 13,951    |       | 4,461     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                | 9,554   | 27,446    |       | 37,000    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                      | \$ 64   | \$ 41,397 | \$    | \$ 41,461 |

**Table of Contents****PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED****(Debtor-In-Possession)****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS****(in thousands)**

|                                                                                                       | <b>For the Six Months Ended June 30, 2008</b> |                            |                     |                     |
|-------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------|---------------------|---------------------|
|                                                                                                       | <b>Debtor Entities</b>                        | <b>Non-Debtor Entities</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                          |                                               |                            |                     |                     |
| Net income (loss)                                                                                     | \$ 43,525                                     | \$ 24,479                  | \$ (24,211)         | \$ 43,793           |
| Adjustments to reconcile net income to net cash provided by operating activities:                     |                                               |                            |                     |                     |
| Provision for doubtful accounts receivable                                                            |                                               | 5,696                      |                     | 5,696               |
| Stock compensation expense                                                                            | 132                                           |                            |                     | 132                 |
| Depreciation and amortization                                                                         |                                               | 16,056                     |                     | 16,056              |
| Gain on sale or disposal of assets                                                                    |                                               | (2,465)                    |                     | (2,465)             |
| Accretion of debt (premium) discount                                                                  | (187)                                         |                            |                     | (187)               |
| Equity in net income of subsidiary                                                                    | (24,211)                                      |                            | 24,211              |                     |
| Deferred income taxes                                                                                 | 450                                           | 2,395                      |                     | 2,845               |
| Gain on early extinguishment or restructuring of debt                                                 | (34,379)                                      | (108)                      |                     | (34,487)            |
| Unrealized foreign currency transaction loss on intercompany and foreign debt                         | (10,270)                                      | 642                        |                     | (9,628)             |
| Changes in assets and liabilities, net of acquisitions:                                               |                                               |                            |                     |                     |
| Increase in accounts receivable                                                                       |                                               | (6,388)                    |                     | (6,388)             |
| Decrease in prepaid expenses and other current assets                                                 | 181                                           | 11,053                     |                     | 11,234              |
| (Increase) decrease in other assets                                                                   | 978                                           | (73)                       |                     | 905                 |
| Decrease in accounts payable                                                                          | (686)                                         | (15,953)                   |                     | (16,639)            |
| Increase in accrued interconnection costs                                                             |                                               | 3,159                      |                     | 3,159               |
| Decrease, net, in deferred revenue, accrued expenses, other current liabilities and other liabilities | (172)                                         | (3,175)                    |                     | (3,347)             |
| Decrease in accrued income taxes                                                                      | (1,812)                                       | (2,643)                    |                     | (4,455)             |
| Increase (decrease) in accrued interest                                                               | (1,035)                                       | 114                        |                     | (921)               |
| Net cash provided by (used in) operating activities                                                   | (27,486)                                      | 32,789                     |                     | 5,303               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                          |                                               |                            |                     |                     |
| Purchase of property and equipment                                                                    |                                               | (14,599)                   |                     | (14,599)            |
| Sale of property and equipment and intangible assets                                                  |                                               | 805                        |                     | 805                 |
| Cash from disposition of business, net of cash disposed                                               |                                               | 1,676                      |                     | 1,676               |
| Cash used for business acquisitions, net of cash acquired                                             |                                               | (34)                       |                     | (34)                |
| Increase in restricted cash                                                                           |                                               | 103                        |                     | 103                 |
| Proceeds from intercompany balance                                                                    | 21,454                                        |                            | (21,454)            |                     |
| Net cash provided by (used in) investing activities                                                   | 21,454                                        | (12,049)                   | (21,454)            | (12,049)            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                          |                                               |                            |                     |                     |
| Purchase of the Company's debt securities                                                             | (11,217)                                      |                            |                     | (11,217)            |
| Principal payments on other long-term obligations                                                     | (6,435)                                       | (1,852)                    |                     | (8,287)             |
| Proceeds from (payments on) intercompany balance                                                      |                                               | (21,454)                   | 21,454              |                     |
| Net cash provided by (used in) financing activities                                                   | (17,652)                                      | (23,306)                   | 21,454              | (19,504)            |
| <b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>                                  |                                               |                            |                     |                     |
|                                                                                                       |                                               | 518                        |                     | 518                 |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                                                        | <b>(23,684)</b>                               | <b>(2,048)</b>             |                     | <b>(25,732)</b>     |

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|                                                |           |    |        |    |           |
|------------------------------------------------|-----------|----|--------|----|-----------|
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 43,026    |    | 38,256 |    | 81,282    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD       | \$ 19,342 | \$ | 36,208 | \$ | \$ 55,550 |

### 15. SUBSEQUENT EVENTS

On July 1, 2009, the Debtors consummated their reorganization under the Bankruptcy Code and the Plan became effective (see Note 1 Proceedings Under Chapter 11 of the Bankruptcy Code ).

## **Table of Contents**

### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **Introduction and Overview of Operations**

We are an integrated facilities based telecommunications services provider offering a portfolio of international and domestic voice, wireless, Internet, voice-over-Internet protocol (VOIP), data and hosting services to customers located primarily in the United States, Australia, Canada, the United Kingdom and western Europe. Our focus is to service the demand for high quality, competitively priced communications services that is being driven by the globalization of the world's economies, the worldwide trend toward telecommunications deregulation and the growth of broadband, Internet, VOIP, wireless and data traffic.

Generally, we price our services competitively with the major carriers and service providers operating in our principal service regions. We seek to generate net revenue through sales and marketing efforts focused on customers with significant communications needs, including small- and medium-sized enterprises (SMEs), multinational corporations, residential customers, and other telecommunications carriers and resellers and through acquisitions.

Our challenge concerning net revenue in recent years has been to overcome declines in long distance voice minutes of use per customer as more customers are using wireless devices and the Internet as alternatives to the use of wireline phones. Also, product substitution (e.g., wireless/Internet for fixed line voice) has resulted in revenue declines in our legacy long distance voice. Additionally, we believe that because deregulatory influences have begun to affect telecommunications markets outside the United States, the deregulatory trend is resulting in greater competition from the existing wireline and wireless competitors and from more recent entrants, such as cable companies and VOIP companies, which could continue to affect adversely our net revenue per minute, as well as minutes of use. More recently, adverse global economic conditions have resulted in a contraction of spending by business and residential customers generally which, we believe, has had an adverse affect on our net revenues.

In order to manage our traffic network transmission costs, we pursue a flexible approach with respect to the management of our network capacity. In most instances, we optimize the cost of traffic by using the least expensive cost routing; negotiate lower variable usage based costs with domestic and foreign service providers and negotiate additional and lower cost foreign carrier agreements with the foreign incumbent carriers and others; and continue to expand/reduce the capacity of our network when traffic volumes justify such actions.

Our overall margin may fluctuate based on the relative volumes of international versus domestic long distance services; carrier services versus business and residential long distance services; prepaid services versus traditional post-paid voice services; Internet, VOIP and data services versus fixed line voice services; the amount of services that are resold; and the proportion of traffic carried on our network versus resale of other carriers' services. Our margin is also affected by customer transfer and migration fees. We generally pay a charge to install and transfer a new customer onto our network, and to migrate DSL and local customers. However, installing and migrating customers to our own networks, such as the local and DSL networks in Australia and Canada, enable us to increase our margin on such services as compared to resale of services using other carriers' networks.

SG&A expenses are comprised primarily of salaries and benefits, commissions, occupancy costs, sales and marketing expenses, advertising, professional fees, and administrative costs. All SG&A expenses are expensed when incurred. Emphasis on cost containment or the shift of expenditures from non-revenue producing expenses to sales and marketing expenses has been heightened since growth in net revenue has been under significant pressure.

## **Table of Contents**

### **Voluntary Reorganization Under Chapter 11**

On March 16, 2009, Primus Telecommunications Group, Incorporated ( "Group" ) and three of its subsidiaries, Primus Telecommunications Holding, Inc. ( "Holding" ), 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 14, 2009, certain lenders under the Term Loan agreed to a term sheet (the "Term Loan Modification Term Sheet" ) concerning a Term Loan amendment that was to be documented and executed upon satisfaction of a number of conditions precedent, including replacement of the Administrative Agent under the Term Loan and receipt of replacement Administrative Agent approval. Additionally, on April 14, 2009, certain lenders under the Term Loan entered into a forbearance agreement and agreed to forbear certain remedies arising out of the Chapter 11 Cases, subject to certain conditions and potential termination of forbearance (the "Term Loan Forbearance Agreement" ). The Plan provides for treatment of the Term Loan as provided for under the Term Loan Modification Term Sheet.

A summary of the terms of the proposed Term Loan amendment as provided for under the Term Loan Modification Term Sheet and a summary of the Term Loan Forbearance Agreement can be found in Note 5 to the Consolidated Condensed Financial Statements presented herein.

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 Plan provides for treatment of the Term Loan as provided for under the Term Loan Modification Term Sheet.

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. See Note 1 - Proceedings Under Chapter 11 of the Bankruptcy Code within the financial statements included in Part I, Item 1 of this Form 10-Q.

A summary of the material features of the confirmed Plan is contained in Group's Current Report on Form 8-K dated June 12, 2009 (the "Confirmed Plan 8-K" ) and filed with the Securities and Exchange Commission (the "SEC" ) on June 15, 2009, and incorporated herein by reference.

## **Table of Contents**

The Plan provided 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 in certain respects by the Third Amendment to Term Loan Agreement, 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 agreed to pay all reasonable fees, expenses and disbursements of the counsel and financial advisors to the Term Loan lenders;

IHC's 1 $\frac{1}{4}$ % 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 $\frac{1}{4}$ % Senior Subordinated Secured Notes due May 20, 2013 (see Amendment of IHC's 1 $\frac{1}{4}$ % Senior Secured Notes Indenture in Note 1), (b) 4,800,000 shares of 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 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 the New Common Stock (see terms described under Warrant Agreements in Note 1), and (c) all reasonable fees, expenses and disbursements of their counsel;

the 3 $\frac{3}{4}$ % Senior Notes due September 2010, 12 $\frac{3}{4}$ % Senior Notes due October 2009 and Step Up Convertible Subordinated Debentures due August 2009 issued by Group 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 (see terms described under Warrant Agreements in Note 1);

all existing shares of the Old Common Stock were cancelled on the Effective Date, and holders thereof received their pro rata share of Contingent Value Rights to acquire up to 2,665,000 shares of New Common Stock (see terms described under Contingent Value Rights Distribution Agreement in Note 1), and

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

## **Foreign Currency**

Foreign currency can have a major impact on our financial results. Currently approximately 80% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar (USD). The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from

## Table of Contents

outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/Canadian dollar (CAD), USD/Australian dollar (AUD), USD/British pound (GBP), and USD/Euro (EUR). Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in hedging transactions. However, during the fourth quarter 2007, we completed a forward currency contract required by the Canadian Credit Facility and an interest rate swap. Despite the counterparty to the interest rate swap agreement entering bankruptcy in October 2008, management did not believe that breach or event of default had occurred in relation to the Canadian Credit Agreement. As of March 10, 2009, under the Waiver and Amendment Agreement, the Lenders under the Canadian Credit Facility waived any such possible breach or event of default. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

We are exposed to financial statement gains and losses as a result of translating the operating results and financial position of our international subsidiaries. We translate the local currency statements of operations of our foreign subsidiaries into USD using the average exchange rate during the reporting period. Changes in foreign exchange rates affect the reported profits and losses and cash flows and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the EUR, there could be a negative or positive effect on the reported results for Europe, depending upon whether Europe is operating profitably or at a loss. It takes more profits in EUR to generate the same amount of profits in USD and a greater loss in EUR to generate the same amount of loss in USD. The opposite is also true. For instance, when the USD weakens there is a positive effect on reported profits and a negative effect on the reported losses for Europe.

In the three months and six months ended June 30, 2009, as compared to the three months and six months ended June 30, 2008, the USD was stronger on average as compared to the CAD, AUD, GBP and EUR. The following tables demonstrate the impact of currency fluctuations on our net revenue for the three months and six months ended June 30, 2009 and 2008 (in thousands, except percentages):

### Net Revenue by Location in USD

|                | For the Three Months<br>Ended June 30, |           |             |            | For the Six Months<br>Ended June 30, |            |             |            |
|----------------|----------------------------------------|-----------|-------------|------------|--------------------------------------|------------|-------------|------------|
|                | 2009                                   | 2008      | Variance    | Variance % | 2009                                 | 2008       | Variance    | Variance % |
| Canada         | \$ 55,061                              | \$ 68,989 | \$ (13,928) | (20)%      | \$ 108,306                           | \$ 137,438 | \$ (29,132) | (21)%      |
| Australia      | \$ 58,475                              | \$ 75,992 | \$ (17,517) | (23)%      | \$ 110,502                           | \$ 150,066 | \$ (39,564) | (26)%      |
| United Kingdom | \$ 23,932                              | \$ 22,204 | \$ 1,728    | 8%         | \$ 49,232                            | \$ 39,581  | \$ 9,651    | 24%        |
| Europe*        | \$ 19,265                              | \$ 22,603 | \$ (3,338)  | (15)%      | \$ 38,005                            | \$ 42,654  | \$ (4,649)  | (11)%      |

### Net Revenue by Location in Local Currencies

|                         | For the Three Months<br>Ended June 30, |        |          |            | For the Six Months<br>Ended June 30, |         |          |            |
|-------------------------|----------------------------------------|--------|----------|------------|--------------------------------------|---------|----------|------------|
|                         | 2009                                   | 2008   | Variance | Variance % | 2009                                 | 2008    | Variance | Variance % |
| Canada (in CAD)         | 64,351                                 | 69,710 | (5,359)  | (8)%       | 130,534                              | 138,473 | (7,939)  | (6)%       |
| Australia (in AUD)      | 77,216                                 | 80,598 | (3,382)  | (4)%       | 155,641                              | 162,494 | (6,853)  | (4)%       |
| United Kingdom (in GBP) | 15,488                                 | 11,268 | 4,220    | 37%        | 33,119                               | 20,054  | 13,065   | 65%        |
| Europe* (in EUR)        | 14,131                                 | 14,466 | (335)    | (2)%       | 28,505                               | 27,844  | 661      | 2%         |

\* Europe includes only subsidiaries whose functional currency is the Euro dollar.

## **Table of Contents**

### **Critical Accounting Policies**

See Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2008 for a detailed discussion of our critical accounting policies. These policies include revenue recognition, determining our allowance for doubtful accounts receivable, accounting for cost of revenue, valuation of long-lived assets and goodwill and accounting for income taxes.

In accordance with Statement of Position (SOP) No. 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, all pre-petition liabilities subject to compromise are 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 are separately classified as current and non-current in the unaudited Consolidated Condensed Balance Sheet as of June 30, 2009. Revenues, expenses, realized gains and losses, and provisions for losses that result from the reorganization are reported separately as reorganization items, net, in the unaudited Consolidated Condensed Statements of Operations for the three months and six months ended June 30, 2009. Net cash used for reorganization items is disclosed separately in the unaudited Consolidated Condensed Statements of Cash Flows. The outcome of the plan of reorganization could materially change the amounts reported in the financial statements, which do not give effect to all adjustments of the carrying value of assets or liabilities that might be necessary as a consequence of the plan, or the effect of any operational changes that may be made in the business.

No other significant changes in our critical accounting policies have occurred since December 31, 2008.

### **Results of Operations**

*Results of operations for the three months ended June 30, 2009 as compared to the three months ended June 30, 2008*

*Net revenue*, exclusive of the currency effect, decreased \$6.1 million, or 2.6%, to \$229.9 million for the three months ended June 30, 2009 from \$235.9 million for the three months ended June 30, 2008. Inclusive of the currency effect, which accounted for a decrease of \$33.1 million, net revenue decreased \$39.2 million to \$196.7 for the three months ended June 30, 2009 from \$235.9 millions for the three months ended June 30, 2008.

United States: United States net revenue decreased \$5.5 million, or 24.6%, to \$16.9 million for the three months ended June 30, 2009 from \$22.4 million for the three months ended June 30, 2008. The decrease is primarily attributable to a decrease of \$3.3 million in retail voice services (for residential and small businesses), a decrease of \$1.8 million in VOIP services and a decrease of \$0.4 million in Internet services.

Canada: Canada net revenue, exclusive of the currency effect, decreased \$5.3 million, or 7.7%, to \$63.7 million for the three months ended June 30, 2009 from \$69.0 million for the three months ended June 30, 2008. The revenue decrease is primarily attributable to a decrease of \$5.1 million in retail voice services, a decrease of \$0.4 million in prepaid services, a decrease of \$0.3 million in wireless services and a decrease of \$0.1 million in local services offset, in part, by an increase of \$0.7 million in internet, data and hosting. Inclusive of the currency effect, which accounted for a \$8.6 million decrease, net revenue decreased \$13.9 million to \$55.1 million for the three months ended June 30, 2009 from \$69.0 million for the three months ended June 30, 2008.

Europe: European net revenue, exclusive of the currency effect, decreased \$1.5 million, or 8.9%, to \$15.4 million for the three months ended June 30, 2009 from \$16.9 million for the three months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$2.4 million decrease, net revenue decreased \$3.9 million to \$13.0 million for the three months ended June 30, 2009 from \$16.9 million for the three months ended June 30, 2008.

## Table of Contents

The following table reflects net revenue for each major country in Europe (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

|                | Exclusive of Currency Effect |             |               |             |                |            |                 | Inclusive of Currency Effect |             |
|----------------|------------------------------|-------------|---------------|-------------|----------------|------------|-----------------|------------------------------|-------------|
|                | Three Months Ended           |             |               |             | Year-over-Year |            |                 | Three Months Ended           |             |
|                | June 30, 2009                |             | June 30, 2008 |             |                |            |                 | June 30, 2009                |             |
|                | Net Revenue                  | % of Europe | Net Revenue   | % of Europe | Variance       | Variance % | Currency Effect | Net Revenue                  | % of Europe |
| United Kingdom | \$ 5,146                     | 33%         | \$ 6,786      | 40%         | (\$ 1,640)     | (24)%      | (\$ 1,112)      | \$ 4,034                     | 31%         |
| France         | 6,050                        | 39%         | 5,050         | 30%         | 1,000          | 20%        | (777)           | 5,273                        | 40%         |
| Belgium        | 1,942                        | 13%         | 2,141         | 13%         | (199)          | (9)%       | (253)           | 1,689                        | 13%         |
| Spain          | 714                          | 5%          | 1,015         | 6%          | (301)          | (30)%      | (91)            | 623                          | 5%          |
| Italy          | 686                          | 4%          | 966           | 6%          | (280)          | (29)%      | (89)            | 597                          | 5%          |
| Other          | 880                          | 6%          | 967           | 5%          | (87)           | (9)%       | (65)            | 815                          | 6%          |
| Europe Total   | \$ 15,418                    | 100%        | \$ 16,925     | 100%        | (\$ 1,507)     | (9)%       | (\$ 2,387)      | \$ 13,031                    | 100%        |

Australia: Australia net revenue, exclusive of the currency effect, decreased \$3.2 million, or 4.2%, to \$72.8 million for the three months ended June 30, 2009 from \$76.0 million for the three months ended June 30, 2008. The revenue decrease is primarily attributable to a decrease of \$2.5 million in internet services, a decrease of \$1.9 million in residential voice, a decrease of \$1.2 million in DSL services offset, in part, by an increases of \$1.6 million in business services and \$0.7 million in wireless services. Inclusive of the currency effect, which accounted for a \$14.3 million decrease, net revenue decreased \$17.5 million to \$58.5 million for the three months ended June 30, 2009 from \$76.0 million for the three months ending June 30, 2008.

Wholesale: Wholesale net revenue, exclusive of the currency effect, increased \$8.4 million, or 17.3%, to \$57.3 million for the three months ended June 30, 2009 from \$48.9 million for the three months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$7.0 million decrease, net revenue increased \$1.4 million to \$50.3 million for the three months ended June 30, 2009 from \$48.9 million for the three months ended June 30, 2008. Due to the decision to cease our German retail operations, all German wholesale operations were transferred to the United Kingdom beginning in the third quarter 2008. This transfer was completed in the first quarter 2009 (see Note 5 Discontinued Operations to the Consolidated Condensed Financial Statements presented herein). The following table reflects net revenue for each major country (in thousands, except percentages):

Wholesale Revenue by Country in USD

|                 | Exclusive of Currency Effect |            |               |            |                |            |                 | Inclusive of Currency Effect |            |
|-----------------|------------------------------|------------|---------------|------------|----------------|------------|-----------------|------------------------------|------------|
|                 | Three Months Ended           |            |               |            | Year-over-Year |            |                 | Three Months Ended           |            |
|                 | June 30, 2009                |            | June 30, 2008 |            |                |            |                 | June 30, 2009                |            |
|                 | Net Revenue                  | % of Total | Net Revenue   | % of Total | Variance       | Variance % | Currency Effect | Net Revenue                  | % of Total |
| United States   | \$ 19,688                    | 34%        | \$ 20,060     | 41%        | (\$372)        | (2)%       | \$              | \$ 19,688                    | 39%        |
| United Kingdom  | 25,374                       | 44%        | 15,418        | 32%        | 9,956          | 65%        | (5,476)         | 19,898                       | 40%        |
| France          | 2,371                        | 4%         | 1,505         | 3%         | 866            | 58%        | (306)           | 2,065                        | 4%         |
| Spain           | 1,669                        | 4%         | 1,906         | 4%         | (237)          | (12)%      | (208)           | 1,461                        | 3%         |
| Italy           | 8,194                        | 14%        | 5,068         | 10%        | 3,126          | 62%        | (1,027)         | 7,167                        | 14%        |
| Germany         |                              |            | 4,839         | 10%        | (4,839)        | (100)%     |                 |                              |            |
| Other           |                              |            | 69            |            | (69)           | (100)%     |                 |                              |            |
| Wholesale Total | \$ 57,296                    | 100%       | \$ 48,865     | 100%       | \$ 8,431       | 17%        | (\$7,017)       | \$ 50,279                    | 100%       |



## **Table of Contents**

Brazil: Brazil net revenue, exclusive of the currency effect, increased \$1.1 million, or 39.7%, to \$3.8 million for the three months ended June 30, 2009 from \$2.7 million for the three months ended June 30, 2008. The revenue increase is due primarily to an increase in VOIP services. Inclusive of the currency effect, which accounted for a \$0.8 million decrease, net revenue increased \$0.3 million to \$3.0 million for the three months ended June 30, 2009 from \$2.7 million for the three months ended June 30, 2008.

*Cost of revenue*, exclusive of the currency effect, increased \$5.1 million to \$147.6 million, or 64.2% of net revenue, for the three months ended June 30, 2009 from \$142.5 million, or 60.4% of net revenue, for the three months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$21.6 million decrease, cost of revenue decreased \$16.6 million to \$125.9 million for the three months ended June 30, 2009 from \$142.5 million for the three months ended June 30, 2008.

United States: United States cost of revenue decreased \$4.5 million to \$6.8 million, or 40.4% of net revenue, for the three months ended June 30, 2009 from \$11.4 million, or 50.6% of net revenue, for the three months ended June 30, 2008. The decrease is attributable to a decrease in net revenue of \$5.5 million and a cost recovery of \$1.5 million from a dispute settlement.

Canada: Canada cost of revenue, exclusive of the currency effect, decreased \$2.1 million to \$27.2 million, or 42.7% of net revenue, for the three months ended June 30, 2009 from \$29.3 million, or 42.5% of net revenue, for the three months ended June 30, 2008. The decrease is primarily attributable to a decrease in net revenue of \$5.3 million. Inclusive of the currency effect, which accounted for a \$3.7 million decrease, cost of revenue decreased \$5.8 million to \$23.5 million for the three months ended June 30, 2009 from \$29.3 million for the three months ended June 30, 2008.

Europe: European cost of revenue, exclusive of the currency effect, decreased by \$0.4 million to \$10.8 million, or 70.3% of net revenue, for the three months ended June 30, 2009 from \$11.3 million, or 66.7% of net revenue, for the three months ended June 30, 2008. The decrease is primarily due to a decrease in net revenue of \$1.5 million offset, in part, by higher costs as a percentage of net revenue. Inclusive of the currency effect, which accounted for a \$1.7 million decrease, cost of revenue decreased \$2.1 million to \$9.1 million for the three months ended June 30, 2009 from \$11.3 million for the three months ended June 30, 2008.

Australia: Australia cost of revenue, exclusive of the currency effect, increased \$3.7 million to \$45.4 million, or 62.3% of net revenue, for the three months ended June 30, 2009 from \$41.7 million, or 54.9% of net revenue, for the three months ended June 30, 2008. The increase is primarily attributable to a \$5.8 million reduction to cost of revenue in 2008 as the result of rulings by the Australian regulatory authority offset, in part, by a decrease in net revenues of \$3.2 million. Inclusive of the currency effect, which accounted for a \$9.0 million decrease, cost of revenue decreased \$5.3 million to \$36.4 million for the three months ended June 30, 2009 from \$41.7 million for the three months ended June 30, 2008.

Wholesale: Wholesale cost of revenue, exclusive of the currency effect, increased \$7.5 million to \$54.7 million, or 95.5% of net revenue, for the three months ended June 30, 2009 from \$47.2 million, or 96.6% of net revenue, for the three months ended June 30, 2008. The increase is primarily attributable to an increase in net revenue of \$8.4 million offset, in part, by lower costs, as a percentage of net revenues, in the United States. Inclusive of the currency effect, which accounted for a \$6.7 million decrease, cost of revenues increased \$0.8 million to \$48.0 million for the three months ended June 30, 2009 from \$47.2 million for the three months ended June 30, 2008.

Brazil: Brazil cost of revenue, exclusive of the currency effect, increased \$1.0 million to \$2.6 million, or 69.7% of net revenue, for the three months ended June 30, 2009 from \$1.6 million, or 59.4% of net revenue, for the three months ended June 30, 2008. The increase is primarily attributable to an increase in net revenue of \$1.1 million and higher costs as a percentage of net revenue. Inclusive of the currency effect, which accounted for a \$0.5 million decrease, cost of revenue increased \$0.5 million to \$2.1 million for the three months ended June 30, 2009 from \$1.6 million for the three months ended June 30, 2008.

## **Table of Contents**

*Selling, general and administrative expenses*, exclusive of the currency effect, decreased \$12.1 million to \$57.9 million, or 25.2% of net revenue, for the three months ended June 30, 2009 from \$70.0 million, or 29.7% of net revenue, for the three months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$7.5 million decrease, selling, general and administrative expenses decreased \$19.6 million to \$50.4 million for the three months ended June 30, 2009 from \$70.0 million for the three months ended June 30, 2008.

United States: United States selling, general and administrative expense decreased \$2.8 million to \$6.4 million, or 38.0% of net revenue, for three months ended June 30, 2009 from \$9.2 million, or 41.3% of net revenue, for the three months ended June 30, 2008. The decrease is attributable to decreases of \$0.6 million in advertising expenses, \$0.2 million in occupancy, \$0.3 million in sales and marketing expense and \$0.6 million in general and administrative expenses and 1.2 million in salaries and benefits.

Canada: Canada selling, general and administrative expense, exclusive of the currency effect, decreased \$2.4 million to \$22.7 million, or 35.7% of net revenue, for three months ended June 30, 2009 from \$25.1 million, or 36.3% of net revenue, for the three months ended June 30, 2008. The decrease is attributable to a decrease of \$1.2 million in salaries and benefits and a decrease of \$1.7 million in sales and marketing expenses offset, in part, by a net increase of \$0.6 million in other general and administrative expenses. Inclusive of the currency effect, which accounted for a \$3.0 decrease, selling, general and administrative expenses decreased \$5.4 million to \$19.7 million for the three months ended June 30, 2009 from \$25.1 million for the three months ended June 30, 2008.

Europe: Europe selling, general and administrative expense, exclusive of the currency effect, decreased \$2.1 million to \$4.3 million, or 27.6% of net revenue, for the three months ended June 30, 2009 from \$6.4 million, or 37.5% of net revenue, for the three months ended June 30, 2008. The decrease is attributable to a decrease of \$1.4 million in salaries and benefits, a decrease of \$0.5 million in occupancy and a decrease of \$0.1 million in professional expenses. Inclusive of the currency effect, which accounted for a \$0.7 million decrease, selling, general and administrative expense decreased \$2.8 million to \$3.6 million for the three months ended June 30, 2009 from \$6.4 million for the three months ended June 30, 2008.

Australia: Australia selling, general and administrative expense, exclusive of the currency effect, decreased \$5.8 million to \$17.1 million, or 23.6% of net revenue, for three months ended June 30, 2009 from \$22.9 million, or 30.2% of net revenue, for the three months ended June 30, 2008. The decrease is attributable to a decrease of \$2.1 million in salaries and benefits, a decrease of \$1.8 million in sales and marketing expense, a decrease of \$1.0 million in advertising expenses, a decrease of \$0.6 million in general and administrative expenses and a decrease of \$0.4 million in professional fees. Inclusive of the currency effect, which accounted for a \$3.3 million decrease, selling, general and administrative expense decreased \$9.1 million to \$13.8 million for the three months ended June 30, 2009 from \$22.9 million for the three months ended June 30, 2008.

Wholesale: Wholesale selling, general and administrative expense, exclusive of the currency effect, decreased \$0.3 million to \$1.8 million, or 3.2% of net revenue, for the three months ended June 30, 2009 from \$2.2 million, or 4.4% of net revenue, for the three months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$0.2 million decrease, selling, general and administrative expense decreased \$0.5 million to \$1.6 million for the three months ended June 30, 2009 from \$2.2 million for the three months ended June 30, 2008.

Brazil: Brazil selling, general and administrative expense, exclusive of the currency effect, increased \$0.1 million to \$1.0 million, or 25.9% of net revenue, for the three months ended June 30, 2009 from \$0.9 million, or 33.2% of net revenue, for the three months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$0.2 million decrease, selling, general and administrative expense decreased \$0.1 million to \$0.8 million for the three months ended June 30, 2009 from \$0.9 million for the three months ended June 30, 2008.

Corporate: Corporate selling, general and administrative expense increased \$1.3 million to \$4.6 million for the three months ended June 30, 2009 from \$3.3 million for the three months ended June 30, 2008. The increase is primarily due to an increase in compensation and severance accruals.

## **Table of Contents**

*Depreciation and amortization expense* decreased \$1.8 million to \$6.3 million for the three months ended June 30, 2009 from \$8.1 million for the three months ended June 30, 2008.

*Interest expense and accretion on debt discount, net* decreased \$10.0 million to \$3.4 million for the three months ended June 30, 2009 from \$13.3 million for the three months ended June 30, 2008. The decrease was attributable to the cessation of interest accruals for the liabilities subject to compromise, including 8% Senior Notes, 14 <sup>1</sup>/<sub>4</sub>% Senior Secured Notes, 3 <sup>3</sup>/<sub>4</sub>% Convertible Notes, 5% Exchangeable Senior Notes, 12 <sup>3</sup>/<sub>4</sub>% Senior Notes and Step Up Convertible Subordinated Debentures, as a result of the Chapter 11 Cases instituted on March 16, 2009.

*Gain on early extinguishment or restructuring of debt* decreased \$32.2 million. In the second quarter 2008, we realized a gain on restructuring of debt of \$32.2 million including the expensing of related financing costs.

*Foreign currency transaction gain* increased \$16.1 million to \$24.2 million for the three months ended June 30, 2009 from \$8.1 million for the three months ended June 30, 2008. The gains are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency.

*Reorganization items, net* is an \$8.3 million expense for the three months ended June 30, 2009 due to the incurrence of professional fees as a result of the Chapter 11 Cases.

*Income tax benefit (expense)* is \$1.1 million expense for the three months ended June 30, 2009 from \$2.4 million benefit for the three months ended June 30, 2008. The expense consists of foreign withholding tax on intercompany interest and royalty fees owed to a United States subsidiary by our Canadian and Australian subsidiaries and charges for uncertain tax positions under FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes.

### *Results of operations for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008*

*Net revenue*, exclusive of the currency effect, increased \$8.1 million, or 1.8%, to \$469.4 million for the six months ended June 30, 2009 from \$461.3 million for the six months ended June 30, 2008. Inclusive of the currency effect, which accounted for a decrease of \$78.2 million, net revenue decreased \$70.1 million to \$391.2 for the six months ended June 30, 2009 from \$461.3 millions for the six months ended June 30, 2008.

United States: United States net revenue decreased \$10.6 million, or 23.2%, to \$35.0 million for the six months ended June 30, 2009 from \$45.6 million for the six months ended June 30, 2008. The decrease is primarily attributable to a decrease of \$6.8 million in retail voice services (for residential and small businesses), a decrease of \$2.9 million in VOIP services and a decrease of \$0.9 million in Internet services.

Canada: Canada net revenue, exclusive of the currency effect, decreased \$7.9 million, or 5.7%, to \$129.6 million for the six months ended June 30, 2009 from \$137.4 million for the six months ended June 30, 2008. The revenue decrease is primarily attributable to a decrease of \$9.2 million in retail voice services and a decrease of \$0.6 million in wireless services offset, in part, by an increase of \$0.8 million in prepaid services and an increase of \$1.0 million in internet, data and hosting. Inclusive of the currency effect, which accounted for a \$21.2 million decrease, net revenue decreased \$29.1 million to \$108.3 million for the six months ended June 30, 2009 from \$137.4 million for the six months ended June 30, 2008.

Europe: European net revenue, exclusive of the currency effect, decreased \$0.5 million, or 1.6%, to \$32.2 million for the six months ended June 30, 2009 from \$32.7 million for the six months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$5.5 million decrease, net revenue decreased \$6.0 million to \$26.7 million for the six months ended June 30, 2009 from \$32.7 million for the six months ended June 30, 2008.

## Table of Contents

The following table reflects net revenue for each major country in Europe (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

|                | Exclusive of Currency Effect |                |                |                |                |            |                    | Inclusive of<br>Currency Effect |                |
|----------------|------------------------------|----------------|----------------|----------------|----------------|------------|--------------------|---------------------------------|----------------|
|                | Six Months Ended             |                |                |                | Year-over-Year |            |                    | Six Months Ended                |                |
|                | June 30, 2009                |                | June 30, 2008  |                |                |            |                    | June 30, 2009                   |                |
|                | Net<br>Revenue               | % of<br>Europe | Net<br>Revenue | % of<br>Europe | Variance       | Variance % | Currency<br>Effect | Net<br>Revenue                  | % of<br>Europe |
| United Kingdom | \$ 12,083                    | 38%            | \$ 13,600      | 42%            | (\$1,517)      | (11)%      | (\$2,998)          | \$ 9,085                        | 34%            |
| France         | 11,660                       | 36%            | 8,953          | 27%            | 2,707          | 30%        | (1,501)            | 10,159                          | 38%            |
| Belgium        | 3,879                        | 12%            | 4,283          | 13%            | (404)          | (9)%       | (503)              | 3,376                           | 13%            |
| Spain          | 1,449                        | 5%             | 2,312          | 7%             | (863)          | (37)%      | (185)              | 1,264                           | 5%             |
| Italy          | 1,321                        | 4%             | 1,523          | 5%             | (202)          | (13)%      | (171)              | 1,150                           | 4%             |
| Other          | 1,762                        | 5%             | 2,019          | 6%             | (257)          | (13)%      | (128)              | 1,634                           | 6%             |
| Europe Total   | \$ 32,154                    | 100%           | \$ 32,690      | 100%           | (\$536)        | (2)%       | (\$5,486)          | \$ 26,668                       | 100%           |

Australia: Australia net revenue, exclusive of the currency effect, decreased \$6.3 million, or 4.2%, to \$143.8 million for the six months ended June 30, 2009 from \$150.1 million for the six months ended June 30, 2008. The revenue decrease is primarily attributable to a decrease of \$5.0 million in internet services, a decrease of \$4.6 million in residential voice, a decrease of \$2.0 million in DSL services offset, in part, by an increases of \$4.2 million in business services and \$1.1 million in wireless services. Inclusive of the currency effect, which accounted for a \$33.3 million decrease, net revenue decreased \$39.6 million to \$110.5 million for the six months ended June 30, 2009 from \$150.1 million for the six months ending June 30, 2008.

Wholesale: Wholesale net revenue, exclusive of the currency effect, increased \$30.1 million, or 33.2%, to \$120.8 million for the six months ended June 30, 2009 from \$90.7 million for the six months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$16.3 million decrease, net revenue increased \$13.8 million to \$104.5 million for the six months ended June 30, 2009 from \$90.7 million for the six months ended June 30, 2008. Due to the decision to cease our German retail operations, all German wholesale operations were transferred to the United Kingdom beginning in the third quarter 2008. This transfer was completed in the first quarter 2009 (see Note 5 – Discontinued Operations to the Consolidated Condensed Financial Statements presented herein). The following table reflects net revenue for each major country (in thousands, except percentages):

Wholesale Revenue by Country in USD

|                 | Exclusive of Currency Effect |               |                |               |                |            |                    | Inclusive of<br>Currency Effect |               |
|-----------------|------------------------------|---------------|----------------|---------------|----------------|------------|--------------------|---------------------------------|---------------|
|                 | Six Months Ended             |               |                |               | Year-over-Year |            |                    | Six Months Ended                |               |
|                 | June 30, 2009                |               | June 30, 2008  |               |                |            |                    | June 30, 2009                   |               |
|                 | Net<br>Revenue               | % of<br>Total | Net<br>Revenue | % of<br>Total | Variance       | Variance % | Currency<br>Effect | Net<br>Revenue                  | % of<br>Total |
| United States   | \$ 43,048                    | 36%           | \$ 39,586      | 44%           | \$ 3,462       | 9%         | \$                 | \$ 43,048                       | 41%           |
| United Kingdom  | 53,310                       | 44%           | 25,981         | 28%           | 27,329         | 105%       | (13,163)           | 40,147                          | 38%           |
| France          | 5,683                        | 5%            | 3,369          | 4%            | 2,314          | 69%        | (747)              | 4,936                           | 5%            |
| Spain           | 3,548                        | 3%            | 4,013          | 4%            | (465)          | (12)%      | (444)              | 3,104                           | 3%            |
| Italy           | 15,230                       | 12%           | 7,851          | 9%            | 7,379          | 94%        | (1,988)            | 13,242                          | 13%           |
| Germany         | 6                            |               | 9,748          | 11%           | (9,742)        | (100)%     | (1)                | 5                               |               |
| Other           |                              |               | 172            |               | (172)          | (100)%     |                    |                                 |               |
| Total Wholesale | \$ 120,825                   | 100%          | \$ 90,720      | 100%          | \$ 30,105      | 33%        | (\$16,343)         | \$ 104,482                      | 100%          |



## **Table of Contents**

Brazil: Brazil net revenue, exclusive of the currency effect, increased \$3.3 million, or 67.6%, to \$8.1 million for the six months ended June 30, 2009 from \$4.8 million for the six months ended June 30, 2008. The revenue increase is due primarily to an increase in VOIP services. Inclusive of the currency effect, which accounted for a \$1.9 million decrease, net revenue increased \$1.4 million to \$6.2 million for the six months ended June 30, 2009 from \$4.8 million for the six months ended June 30, 2008.

*Cost of revenue*, exclusive of the currency effect, increased \$22.6 million to \$306.5 million, or 65.3% of net revenue, for the six months ended June 30, 2009 from \$284.0 million, or 61.6% of net revenue, for the six months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$51.3 million decrease, cost of revenue decreased \$28.7 million to \$255.3 million for the six months ended June 30, 2009 from \$284.0 million for the six months ended June 30, 2008.

United States: United States cost of revenue decreased \$7.3 million to \$15.8 million, or 45.3% of the net revenue, for the six months ended June 30, 2009 from \$23.1 million, or 50.7% of net revenue, for the six months ended June 30, 2008. The decrease is primarily attributable to a decrease of \$10.6 million in net revenue and a cost recovery of \$1.5 million from a dispute settlement.

Canada: Canada cost of revenue, exclusive of the currency effect, decreased \$2.3 million to \$56.5 million, or 43.6% of net revenue, for the six months ended June 30, 2009 from \$58.9 million, or 42.8% of net revenue, for the six months ended June 30, 2008. The decrease is primarily attributable to a decrease in net revenue of \$7.9 million and higher costs as a percentage of net revenue. Inclusive of the currency effect, which accounted for a \$9.4 million decrease, cost of revenue decreased \$11.7 million to \$47.2 million for the six months ended June 30, 2009 from \$58.9 million for the six months ended June 30, 2008.

Europe: European cost of revenue, exclusive of the currency effect, increased by \$0.5 million to \$22.5 million, or 69.9% of net revenue, for the six months ended June 30, 2009 from \$22.0 million, or 67.3% of net revenue, for the six months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$3.9 million decrease, cost of revenue decreased \$3.4 million to \$18.6 million for the six months ended June 30, 2009 from \$22.0 million for the six months ended June 30, 2008.

Australia: Australia cost of revenue, exclusive of the currency effect, increased \$1.1 million to \$90.4 million, or 62.9% of net revenue, for the six months ended June 30, 2009 from \$89.3 million, or 59.5% of net revenue, for the six months ended June 30, 2008. The increase is primarily attributable to a \$5.8 million reduction to cost of revenue in 2008 as the result of rulings by the Australian regulatory authority offset, in part, by a decrease in net revenues of \$6.3 million. Inclusive of the currency effect, which accounted for a \$21.0 million decrease, cost of revenue decreased \$19.9 million to \$69.4 million for the three months ended June 30, 2009 from \$89.3 million for the three months ended June 30, 2008.

Wholesale: Wholesale cost of revenue, exclusive of the currency effect, increased \$27.7 million to \$115.4 million, or 95.5% of net revenue, for the six months ended June 30, 2009 from \$87.7 million, or 96.7% of net revenue, for the six months ended June 30, 2008. The increase is primarily attributable to an increase in net revenue of \$30.1 million offset, in part, by lower costs, as a percentage of net revenues, in the United States. Inclusive of the currency effect, which accounted for a \$15.7 million decrease, cost of revenue increased \$12.0 million to \$99.7 million for the six months ended June 30, 2009 from \$87.7 million for the six months ended June 30, 2008.

Brazil: Brazil cost of revenue, exclusive of the currency effect, increased \$2.8 million to \$5.8 million, or 72.0% of net revenue, for the six months ended June 30, 2009 from \$3.0 million, or 62.3% of net revenue, for the six months ended June 30, 2008. The increase is primarily attributable to an increase in net revenue of \$3.3 million and higher costs as a percentage of net revenue. Inclusive of the currency effect, which accounted for a \$1.3 million decrease, cost of revenue increased \$1.5 million to \$4.5 million for the six months ended June 30, 2009 from \$3.0 million for the six months ended June 30, 2008.

## **Table of Contents**

*Selling, general and administrative expenses*, exclusive of the currency effect, decreased \$25.3 million to \$113.5 million, or 24.2% of net revenue, for the six months ended June 30, 2009 from \$138.8 million, or 30.1% of net revenue, for the six months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$17.7 million decrease, selling, general and administrative expenses decreased \$43.0 million to \$95.8 million for the six months ended June 30, 2009 from \$138.8 million for the six months ended June 30, 2008.

United States: United States selling, general and administrative expenses decreased \$5.3 million to \$13.1 million, or 37.5% of net revenue, for six months ended June 30, 2009 from \$18.4 million, or 40.3% of net revenue, for the six months ended June 30, 2008. The decrease is attributable to a decrease of \$1.9 million in salaries and benefits, a decrease of \$1.6 million in advertising expenses, a decrease of \$0.5 million in occupancy, a decrease of \$0.6 million in general and administrative expenses and a decrease of \$0.5 million in sales and marketing expense.

Canada: Canada selling, general and administrative expense, exclusive of the currency effect, decreased \$5.3 million to \$44.6 million, or 34.4% of net revenue, for six months ended June 30, 2009 from \$49.9 million, or 36.3% of net revenue, for the six months ended June 30, 2008. The decrease is attributable to a decrease of \$3.0 million in salaries and benefits, a decrease of \$2.9 million in sales and marketing expenses and a decrease of \$0.7 million in advertising expense offset, in part, by an increase in professional fees of \$0.7 million and an increase in general and administrative expenses of \$0.8 million. Inclusive of the currency effect, which accounted for a \$7.2 million decrease, selling, general and administrative expenses decreased \$12.5 million to \$37.4 million for the six months ended June 30, 2009 from \$49.9 million for the six months ended June 30, 2008.

Europe: Europe selling, general and administrative expense, exclusive of the currency effect, decreased \$3.0 million to \$9.2 million, or 28.5% of net revenue, for the six months ended June 30, 2009 from \$12.1 million, or 37.1% of net revenue, for the six months ended June 30, 2008. The decrease is attributable to a decrease of \$1.9 million in salaries and benefits, a decrease of \$0.6 million in occupancy, a decrease of \$0.2 million in advertising expense, and a decrease of \$0.2 million in professional expenses. Inclusive of the currency effect, which accounted for a \$1.6 million decrease, selling, general and administrative expense decreased \$4.6 million to \$7.5 million for the six months ended June 30, 2009 from \$12.1 million for the six months ended June 30, 2008.

Australia: Australia selling, general and administrative expense, exclusive of the currency effect, decreased \$11.7 million to \$34.4 million, or 23.9% of net revenue, for six months ended June 30, 2009 from \$46.1 million, or 30.7% of net revenue, for the six months ended June 30, 2008. The decrease is attributable to a decrease of \$3.7 million in salaries and benefits, a decrease of \$5.4 million in sales and marketing expense, a decrease of \$1.6 million in advertising expenses, a decrease of \$0.7 million in general and administrative expenses and a decrease of \$0.5 million in professional fees. Inclusive of the currency effect, which accounted for a \$8.0 million decrease, selling, general and administrative expense decreased \$19.7 million to \$26.4 million for the six months ended June 30, 2009 from \$46.1 million for the six months ended June 30, 2008.

Wholesale: Wholesale selling, general and administrative expense, exclusive of the currency effect, decreased \$0.5 million to \$3.8 million, or 3.2% of net revenue, for the six months ended June 30, 2009 from \$4.3 million, or 4.7% of net revenue, for the six months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$0.4 million decrease, selling, general and administrative expense decreased \$0.9 million to \$3.4 million for the six months ended June 30, 2009 from \$4.3 million for the six months ended June 30, 2008.

Brazil: Brazil selling, general and administrative expense, exclusive of the currency effect, increased \$0.2 million to \$1.9 million, or 23.2% of net revenue, for the six months ended June 30, 2009 from \$1.7 million, or 35.2% of net revenue, for the six months ended June 30, 2008. Inclusive of the currency effect, which accounted for a \$0.4 million decrease, selling, general and administrative expense decreased \$0.2 million to \$1.5 million for the six months ended June 30, 2009 from \$1.7 million for the six months ended June 30, 2008.

Corporate: Corporate selling, general and administrative expense increased \$0.3 million to \$6.7 million for the six months ended June 30, 2009 from \$6.4 million for the six months ended June 30, 2008. The increase is primarily due to an increase in compensation and severance accruals.

## **Table of Contents**

*Depreciation and amortization expense* decreased \$3.7 million to \$12.3 million for the six months ended June 30, 2009 from \$16.1 million for the six months ended June 30, 2008.

*Gain on sale or disposal of assets* was a \$2.5 million gain for the six months ended June 30, 2008. In the six months ended June 30, 2008, we recognized a gain of \$0.8 million associated with the sale of certain surplus fiber assets in the US and a gain of \$1.8 million associated with a sale of a minority equity investment in a Japanese entity.

*Interest expense and accretion on debt discount, net* decreased \$14.6 million to \$13.9 million for the six months ended June 30, 2009 from \$28.6 million for the six months ended June 30, 2008. The decrease was mainly attributable to the cessation of interest accruals for the liabilities subject to compromise as a result of the Chapter 11 Cases instituted on March 16, 2009.

*Gain on early extinguishment or restructuring of debt* was \$34.5 million from the six months ended June 30, 2008. In the second quarter 2008, we realized a gain on restructuring of debt of \$32.2 million including the expensing of related financing costs. In the first quarter 2008, we made open market debt purchases resulting in a \$2.2 million gain on early extinguishment of debt including the write-off of related deferred financing costs, discount and effective interest.

*Foreign currency transaction gain* increased \$11.3 million to \$21.1 million for the six months ended June 30, 2009 from \$9.8 million for the six months ended June 30, 2008. This gain is attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency.

*Reorganization items, net* was a \$8.3 million gain for the six months ended June 30, 2009. In accordance with SOP No. 90-7, 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 has 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, and the incurrence of professional fees regarding the bankruptcy filing. 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. For further detail concerning past treatment of these troubled debt restructurings, see Note 5 Long-Term Obligations and Liabilities Subject to Compromise; Liabilities Subject to Compromise 1/4% Senior Secured Notes and 5% Exchangeable Senior Notes. Professional fees and other expenses related to the reorganization were \$12.1 million for the six months ended June 30, 2009.

*Income tax expense* increased to \$3.9 million for the six months ended June 30, 2009. The expense consists of foreign withholding tax on intercompany interest and royalty fees owed to a United States subsidiary by our Canadian and Australian subsidiaries and charges for uncertain tax positions under FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes.

## **Liquidity and Capital Resources**

### ***Changes in Cash Flows***

Our principal liquidity requirements arise from cash used in operating activities, purchases of network equipment including switches, related transmission equipment and capacity, development of back-office systems, expansion of data center facilities, interest and principal payments on outstanding debt and other obligations, taxes and acquisitions. We have financed our growth and operations to date through public offerings and private placements of debt and equity securities, vendor financing, capital lease financing and other financing arrangements.

Net cash provided by operating activities was \$17.1 million for the six months ended June 30, 2009 as compared to net cash provided by operating activities of \$5.3 million for the six months ended June 30, 2008. For the six months ended June 30, 2009, net income, net of non-cash operating activity, provided \$27.4 million of

## **Table of Contents**

cash. In addition, cash was increased by a reduction in accounts receivable of \$7.8 million, a reduction in other assets of \$2.5 million, an increase in accrued expenses, deferred revenue, other current liabilities and other liabilities, net of \$1.3 million and an increase in accrued income tax of \$2.1 million. For the six months ended June 30, 2009, we used \$12.8 million to reduce our accounts payable, \$5.4 million to reduce the accrued interconnection costs, and \$1.6 million to reduce our accrued interest. Cash effect of reorganization items was \$4.6 million, which includes professional fees paid for reorganization. For the six months ended June 30, 2008, net income, net of non-cash operating activity, provided \$21.5 million of cash. In addition, cash was increased by a reduction in prepaid expenses, other current assets and other assets of \$12.1 million and an increase in accrued interconnection costs of \$3.2 million. For the six months ended June 30, 2008, we used \$6.4 million to increase our accounts receivable, \$16.6 million to reduce our accounts payable, \$0.9 million to reduce our accrued interest, \$4.5 million to reduce our accrued income taxes and \$3.2 million to reduce our accrued expenses, deferred revenue, other current liabilities and other liabilities.

Net cash used in investing activities was \$5.6 million for the six months ended June 30, 2009 compared to \$12.0 million for the six months ended June 30, 2008. Net cash used in investing activities during the six months ended June 30, 2009 included \$5.7 million of capital expenditures, \$0.2 million for a business acquisition in Australia and \$0.1 million increase in restricted cash, offset by \$0.2 million net cash proceeds from the sale of a Japanese retail business and \$0.2 million from the disposition of network assets. Net cash used in investing activities was \$12.0 million for the six months ended June 30, 2008. Net cash used in investing activities during the six months ended June 30, 2008 included \$14.6 million of capital expenditures offset by \$1.7 million net cash proceeds from the disposition of a minority equity investment in Japan and \$0.8 million from the disposition of surplus fiber assets.

Net cash used in financing activities was \$8.3 million for the six months ended June 30, 2009 as compared to \$19.5 million for the six months ended June 30, 2008. During the six months ended June 30, 2009, \$5.5 million was used to reduce our Canadian Credit Facility, \$0.5 million was used to reduce the principal amount of the Term Loan, and \$2.3 million was used to reduce the principal amounts outstanding on capital leases, leased fiber capacity, financing facilities and other long-term obligations. Net cash used in financing activities was \$19.5 million for the six months ended June 30, 2008. During the six months ended June 30, 2008, \$11.2 million was used to purchase and retire \$0.8 million principal amount of our 12<sup>3/4</sup>% Senior Notes and \$13.8 million principal amount of our Step Up Convertible Subordinated Debentures. We also used \$8.3 million for debt exchanges and principal payments on capital leases, leased fiber capacity, financing facilities and other long-term obligations.

### ***Short- and Long-Term Liquidity Considerations and Risks***

The Chapter 11 Cases were preceded by severe downturns in global economic conditions and contraction of capital markets beginning in mid-year 2008, as well as the significant exchange rate appreciation of the United States dollar during the second half of 2008, which impaired our ability to strengthen the balance sheet opportunistically and improve cash flows through potential refinancing and equity capital infusions. Further, such conditions made the sale of non-strategic assets and businesses to generate enhanced liquidity difficult to complete on acceptable terms or at all. Additionally, given that the preponderance of our holding company obligations are in United States dollars, the sharp strengthening of the United States dollar as compared to other foreign currencies during the second half of 2008 added further strain on our liquidity position with payments from our foreign operating subsidiaries yielding less United States dollars.

Notwithstanding confirmation 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 principal of the Senior Secured Term Loan Facility and the 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. We may be subject to additional covenants and limitations in levels of debt and debt transactions. If we are successful in raising additional financing or issuing

**Table of Contents**

our securities in exchange for or extension of debt, securities comprising a significant percentage of our diluted equity capital may be issued in connection with the completion of such transactions. Additionally, if our plans or assumptions change or prove inaccurate, including those with respect to our debt levels, currency exchange rates, competitive developments, developments affecting our network or product initiatives, services, operations or cash from operating activities, if we consummate additional investments or acquisitions, if we experience unexpected costs or competitive pressures or if existing cash and any other borrowings prove to be insufficient, we may need to obtain such financing and/or relief sooner than expected. In such circumstances, there can be no assurance we will be successful in these efforts to obtain new capital or debt financing at acceptable terms or to exchange or to extend debt. Also there can be no assurance that changes in assumptions or conditions, including those referenced herein and under Part II. Item 1A. Risk Factors, and Special Note Regarding Forward-Looking Statements will not adversely affect our financial condition or short-term or long-term liquidity.

As of June 30, 2009, we have \$39.1 million in future minimum purchase obligations, \$56.2 million in future operating lease payments and \$256.3 million of indebtedness that are not subject to compromise. At June 30, 2009, approximately \$89.0 million of unrecognized tax benefits have been recorded as liabilities in accordance with FIN No. 48; however, we are uncertain as to if or when such amounts may be settled, so we have not included these amounts in the table below. Included in the unrecognized tax benefits not included in the table below, we have recorded a liability for potential penalties and interest of \$0.1 million for the quarter ended June 30, 2009.

Under bankruptcy law, actions by creditors to collect upon liabilities of the Debtors incurred prior to the Petition Date are stayed and certain other pre-petition contractual obligations may not be enforced against the Debtors without approval of the Court. In accordance with SOP No. 90-7, these liabilities are adjusted to the amount of the allowed claim by the court and are classified as liabilities subject to compromise in the Consolidated Condensed Balance Sheet as of June 30, 2009, which are different than the prepetition amounts originally recorded on the financial statements due to certain debt premiums, discounts and future interest payments recorded as long-term obligations that were written off subsequent to the filing of the Chapter 11 Cases. Payment terms for the amounts classified as subject to compromise were established in connection with the confirmation of the Plan. Liabilities subject to compromise are classified separately from long-term obligations and current liabilities. A substantial portion of our debt as of June 30, 2009 has been classified as liability subject to compromise due to the default provisions triggered by the bankruptcy filings, the following table reflects the contractual payments of principal and interest that existed prior to the bankruptcy filings and that are not liabilities subject to compromise:

| Year Ending December 31,                    | Vendor<br>Financing<br>and Other | Senior Secured<br>Term Loan<br>Facility (1) | Canadian<br>Credit<br>Facility (2) | Purchase<br>Obligations | Operating<br>Leases | Total      |
|---------------------------------------------|----------------------------------|---------------------------------------------|------------------------------------|-------------------------|---------------------|------------|
| (amounts in thousands)                      |                                  |                                             |                                    |                         |                     |            |
| 2009 (as of June 30, 2009)                  | \$ 1,888                         | \$ 7,694                                    | \$ 4,011                           | \$ 15,888               | \$ 8,660            | \$ 38,141  |
| 2010                                        | 5,151                            | 16,767                                      | 7,685                              | 16,659                  | 13,724              | 59,986     |
| 2011                                        | 1,068                            | 89,713                                      | 21,036                             | 3,998                   | 10,186              | 126,001    |
| 2012                                        | 257                              |                                             |                                    | 2,572                   | 8,559               | 11,388     |
| 2013                                        | 64                               |                                             |                                    |                         | 6,038               | 6,102      |
| Thereafter                                  | 33                               |                                             |                                    |                         | 9,075               | 9,108      |
| Total Minimum Principal & Interest Payments | 8,461                            | 114,174                                     | 32,732                             | 39,117                  | 56,242              | 250,726    |
| Less: Amount Representing Interest          | (874)                            | (18,424)                                    | (3,232)                            |                         |                     | (22,530)   |
| Total Long-Term Obligations                 | \$ 7,587                         | \$ 95,750                                   | \$ 29,500                          | \$ 39,117               | \$ 56,242           | \$ 228,196 |

- (1) For preparation of this table, we have assumed the interest rate of the Senior Secured Term Loan Facility to be 12.0%, according to the Term Loan Modification Term Sheet. This loan is classified as a current portion of long-term obligations due to acceleration as a result of the Bankruptcy.
- (2) For preparation of this table, we have assumed the interest rate of the Canadian Credit Facility to be 7.0%.

## **Table of Contents**

In connection with the Company's emergence from bankruptcy on July 1, 2009, the obligations reflected in the table above will continue as presented and also will include \$123.5 million in IHC's Senior Secured Subordinated Notes as presented in the table of contractual obligations in Note 1 - Proceedings Under Chapter 11 of the Bankruptcy Code. The prior principal amount of Senior Secured Subordinated Notes are classified as liabilities subject to compromise as of June 30, 2009.

We have contractual obligations to utilize network facilities from certain carriers with terms greater than one year. We generally do not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term. We have minimum annual purchase obligations of \$15.9 million, \$16.7 million, \$4.0 million, and \$2.6 million remaining in 2009, 2010, 2011 and 2012, respectively.

The filing of the Chapter 11 Cases on March 16, 2009 described in this filing constituted an event of default that triggered repayment obligations under a number of debt instruments. As a result of the event of default, all obligations under the affected debt agreements became automatically and immediately due and payable. Additionally, the filing of the Chapter 11 Cases constituted an event of default through a cross default provision of the Canadian Credit Facility; however a waiver of that default provision was obtained from the lender. Certain other vendor and capital lease obligations are not in default because they are held in operating companies that were not part of the bankruptcy filings. We believe that any efforts to enforce the payment obligations under the defaulted debt agreements are stayed as a result of the filing of such Chapter 11 Cases in the Bankruptcy Court (subject to certain exceptions contemplated by the Term Loan Modification Term Sheet, following Bankruptcy Court approval).

The filing of the Chapter 11 Cases did not create a need to seek debtor-in-possession financing due to the fact that substantially all business expenses are handled at the Operating Subsidiary level and were not affected by the filings. Thus, our Operating Subsidiaries were unaffected by, and were not part of, the Plan and continued to manage and to operate their businesses without interruption. Employees, customers, suppliers and partners of these Operating Subsidiaries were unaffected during the filing of the Chapter 11 Cases. The Operating Subsidiaries, as well as the Debtors, had adequate cash available to support their operations while the Debtors were seeking Bankruptcy Court confirmation of the Plan.

## **Newly Adopted Accounting Principles**

Effective April 1, 2009, we adopted SFAS No. 165, Subsequent Events. SFAS 165 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. SFAS No. 165 also requires disclosure of the date through which subsequent events are evaluated by management. The adoption did not have a material effect on our results of operations, financial position or cash flows. Management has evaluated subsequent events through August 13, 2009, for this quarterly report on Form 10-Q, for the quarter ended June 30, 2009.

Effective January 1, 2009, we adopted FSP No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP No. 14-1 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. FSP No. 14-1 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 our results of operations, financial position or cash flows.

Effective January 1, 2009, we 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 our results of operations, financial position or cash flows.

## **Table of Contents**

Effective January 1, 2009, we adopted SFAS No. 141R, *Business Combinations*. SFAS No. 141R 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 our results of operations, financial position or cash flows.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, *Application of FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 1* and FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*. The provisions of SFAS No. 157, *Fair Value Measurements*, which 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 our financial statements. FSP 157-1 and FSP 157-2 collectively delayed the effective date of SFAS No. 157 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 SFAS No. 157. On January 1, 2009, we adopted the provisions of SFAS No. 157 for nonrecurring fair value measurements of nonfinancial assets and liabilities. The provisions adopted in the first quarter 2009 did not have an impact on our financial statements as we did not have any fair value measurements of nonfinancial assets and liabilities as of June 30, 2009.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging* 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. SFAS No. 161 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. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, a replacement of SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which 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 provisions of SFAS No. 168 will be applied prospectively beginning in the third quarter of 2009. We anticipate that the adoption of this standard will not have a material impact on our results of operations, financial position and cash flows.

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. We are currently evaluating the impact the provisions of SFAS No. 167 on our financial statements.

### **Special Note Regarding Forward Looking Statements**

Certain statements in this Quarterly Report on Form 10-Q and elsewhere concerning the Debtors, the Plan, future liquidity, cost savings initiatives and related matters constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

## **Table of Contents**

Such statements are based on current expectations, and are not strictly historical statements. In some cases, you can identify forward-looking statements by terminology such as if, may, should, believe, anticipate, future, forward, potential, estimate, reinstate, opportunity, exchange, growth, outcome, could, expect, intend, plan, strategy, provide, commitment, result, seek, pursue, ongoing, of such terms or comparable terminology. These forward-looking statements inherently involve certain risks and uncertainties, although they are based on our current plans or assessments which are believed to be reasonable as of the date of this filing. Forward-looking statements include, without limitation, statements set forth in this document and elsewhere regarding, among other things:

post-restructuring financial condition, financing requirements, prospects and cash flow;

expectations of future growth, creation of shareholder value, revenue, foreign revenue contributions and net income, as well as income from operations, margins, earnings per share, cash flow and cash sufficiency levels, working capital, network development, customer migration and related costs, spending on and success with growth products, including broadband Internet, VOIP, wireless, local, data and hosting services, traffic development, capital expenditures, selling, general and administrative expenses, income tax and withholding tax expense, fixed asset and goodwill impairment charges, service introductions, cash requirements and potential asset sales;

increased competitive pressures, declining usage patterns, and our growth products, bundled service offerings, the pace and cost of customer migration onto our networks, the effectiveness and profitability of the growth products;

financing, refinancing, debt extension, de-leveraging, restructuring, exchange or tender plans or initiatives, and potential dilution of existing equity holders from such initiatives;

liquidity and debt service forecast;

assumptions regarding currency exchange rates;

timing, extent and effectiveness of cost reduction initiatives and management's ability to moderate or control discretionary spending;

management's plans, goals, expectations, guidance, objectives, strategies, and timing for future operations, acquisitions, asset dispositions, product plans, performance and results;

management's assessment of market factors and competitive developments, including pricing actions and regulatory rulings; and

ability to generate net cash proceeds from the disposition of selective assets without material impairment to profitability.

Factors and risks that could cause actual results or circumstances to differ materially from those set forth or contemplated in forward looking statements include those set forth in Risk Factors as well as, without limitation:

the occurrence of a default or event of default under the Term Loan or other financing agreement;

customer, vendor, carrier and third-party responses to Plan confirmation;

changes in business conditions causing changes in the business direction and strategy by management;

heightened competitive pricing and bundling pressures in the markets in which we operate;

the ability to service substantial indebtedness;

accelerated decrease in minutes of use on wireline phones;

fluctuations in the exchange rates of currencies, particularly of the USD relative to foreign currencies of the countries where we conduct our foreign operations;

**Table of Contents**

adverse interest rate developments affecting our variable interest rate debt;

difficulty in maintaining or increasing customer revenues and margins through our product initiatives and bundled service offerings, and difficulties in migrating and provisioning broadband and local customers to DSL networks;

inadequate financial resources to promote and to market product initiatives;

fluctuations in prevailing trade credit terms or revenues due to the adverse impact of, among other things, further telecommunications carrier bankruptcies or adverse bankruptcy related developments affecting our large carrier customers;

the possible inability to raise additional capital when needed, on attractive terms, or at all;

possible claims under our existing debt instruments which could impose constraints and limit our flexibility;

the inability to service substantial indebtedness and to reduce, refinance, extend, exchange, tender for or restructure debt significantly, or in amounts sufficient to conduct regular ongoing operations;

the impact of the delisting of our common stock from the Nasdaq Capital Market which may impair our ability to raise capital;

further changes in the telecommunications or Internet industry, including rapid technological changes, regulatory and pricing changes in our principal markets and the nature and degree of competitive pressure that we may face;

adverse tax or regulatory rulings from applicable authorities;

enhanced broadband, DSL, Internet, wireless, VOIP, data and hosting and local and long distance voice telecommunications competition;

changes in financial, capital market and economic conditions;

changes in service offerings or business strategies, including the need to modify business models if performance is below expectations;

difficulty in retaining existing long distance wireline and dial-up ISP customers;

difficulty in migrating or retaining customers associated with acquisitions of customer bases, or integrating other assets;

difficulty in selling new services in the marketplace;

difficulty in providing broadband, DSL, local, VOIP, data and hosting or wireless services;

changes in the regulatory schemes or requirements and regulatory enforcement in the markets in which we operate;

restrictions on our ability to execute certain strategies or complete certain transactions as a result of our inexperience with new products, or limitations imposed by available cash resources, our capital structure or debt covenants;

risks associated with our limited DSL, Internet, VOIP, data and hosting and wireless experience and expertise, including effectively utilizing new marketing channels such as interactive marketing employing the Internet;

entry into developing markets;

aggregate margin contribution from the new products is not sufficient in amount or timing to offset the margin decline in our legacy long distance voice and dial-up ISP businesses;

the possible inability to hire and/or retain qualified executive management, sales, technical and other personnel;

## **Table of Contents**

risks and costs associated with our effort to locate certain activities and functions off-shore;

risks associated with international operations;

dependence on effective information and billing systems;

possible claims for patent infringement on products or processes employed in providing our services;

dependence on third parties for access to their networks to enable us to expand and manage our global network and operations and to offer broadband, DSL, local, VOIP and wireless services, including dependence upon the cooperation of incumbent carriers relating to the migration of customers;

dependence on the performance of our global standard asynchronous transfer mode and Internet-based protocol (ATM+IP) communications network; risks associated with maintaining and upgrading networks;

adverse regulatory rulings or actions affecting our operations, including the imposition of taxes and fees, the imposition of obligations upon VOIP providers to provide enhanced 911 (E911) services and restricting access to broadband networks owned and operated by others, including the development of a national broadband network in Australia; and

elimination of or limitation of a substantial amount or all of our United States or foreign operating loss carryforwards due to confirmation of the plan of reorganization, effective as of July 1, 2009.

As such, actual results or circumstances may vary materially from such forward looking statements or expectations. Readers are also cautioned not to place undue reliance on these forward looking statements which speak only as of the date these statements were made. We are not obligated to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our primary market risk exposures relate to changes in foreign currency exchange rates, valuations of derivatives and to changes in interest rates.

Foreign currency can have a major impact on our financial results. Currently about 80% of our net revenue was derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the USD. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/CAD, USD/AUD, USD/GBP, and USD/EUR. Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in hedging transactions. However, during the fourth quarter 2007, we completed a forward currency contract required by the Canadian Credit Facility and an interest rate swap. Despite the counterparty to the interest rate swap agreement entering bankruptcy in October 2008, management did not believe that breach or event of default had occurred in relation to the Canadian Credit Agreement. As of March 10, 2009, under the Waiver and Amendment Agreement described in Item 1 under caption Canadian Credit Facility, the Lenders under the Canadian Credit Facility waived any such possible breach or event of default. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with

our foreign operations are also denominated in local currencies.

**Table of Contents**

We are exposed to financial statement gains and losses as a result of translating the operating results and financial position of our international subsidiaries. We translate the local currency statements of operations of our foreign subsidiaries into USD using the average exchange rate during the reporting period. Changes in foreign exchange rates affect the reported profits and losses and cash flows and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the EUR, there could be a negative or positive effect on the reported results for Europe, depending upon whether Europe is operating profitably or at a loss. It takes more profits in EUR to generate the same amount of profits in USD and a greater loss in EUR to generate the same amount of loss in USD. The opposite is also true. For instance, when the USD weakens there is a positive effect on reported profits and a negative effect on reported losses for Europe.

In the three months and six months ended June 30, 2009, as compared to the three months and six months ended June 30, 2008, the USD was stronger on average as compared to the AUD, CAD, GBP and EUR. As a result, our revenue of the subsidiaries whose local currency is AUD, CAD, GBP and EUR increased (decreased) (4)%, (8)%, 37% and (2)% in local currency compared to the three months ended June 30, 2008, but increased (decreased) (23)%, (20)%, 8% and (15)% in USD, respectively. Our revenue of the subsidiaries whose local currency is AUD, CAD, GBP and EUR increased (decreased) (4)%, (6)%, 65% and 2% in local currency compared to the six months ended June 30, 2008, but increased (decreased) (26)%, (21)%, 24% and (11)% in USD, respectively.

*Interest rates* The 1 $\frac{3}{4}$ % Senior Subordinated Secured Notes are at a fixed interest rate. However, the Term Loan is at a variable rate of LIBOR plus 9.00% with a LIBOR floor of 3.00%, and the Canadian Credit Facility is at a variable rate LIBOR plus 4.75% with a LIBOR floor of 2.50%. We are exposed to interest rate risk as debt refinancing may be required. Our primary exposure to market risk stems from fluctuations in interest rates.

The interest rate sensitivity table below summarizes our market risks associated with fluctuations in interest rates for the six months ended June 30, 2009 in USD, which is our reporting currency. The table presents principal cash flows and related weighted average interest rates by year of expected maturity for our senior secured term loan, Canadian Credit Facility, leased fiber capacity, and other long-term obligations in effect at June 30, 2009. This table only represents liabilities that are not subject to compromise (see Note 5 Long-Term Obligations and Liabilities Subject to Compromise ).

|                       | Year of Maturity                   |           |            |        |       |            |            | Fair Value |
|-----------------------|------------------------------------|-----------|------------|--------|-------|------------|------------|------------|
|                       | 2009                               | 2010      | 2011       | 2012   | 2013  | Thereafter | Total      |            |
|                       | (in thousands, except percentages) |           |            |        |       |            |            |            |
| Fixed Rate            | \$ 1,507                           | \$ 4,753  | \$ 988     | \$ 246 | \$ 61 | \$ 32      | \$ 7,587   | \$ 7,587   |
| Average Interest Rate | 9.4%                               | 11.9%     | 10.9%      | 8.7%   | 5.6%  | 4.0%       | 11.1%      |            |
| Variable Rate         | \$ 4,850                           | \$ 11,600 | \$ 108,800 | \$     | \$    | \$         | \$ 125,250 | \$ 111,366 |
| Average Interest Rate | 8.9%                               | 9.4%      | 11.1%      | 0.0%   | 0.0%  | 0.0%       | 10.8%      |            |

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures.**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, as a result of the material weakness described below, our Principal Executive Officer and our Principal Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed

## **Table of Contents**

by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As part of our compliance efforts relative to Section 404 of Sarbanes-Oxley Act of 2002, management assessed the effectiveness of internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in Internal Control-Integrated Framework. Based on the assessment, management identified a material weakness in our internal control over accounting for income taxes. The material weakness in internal control related to a lack of documentation and insufficient historical analysis, primarily caused by turnover in the role of Corporate Tax Director. This material weakness was first identified as of December 31, 2006. The turnover of the Corporate Tax Director position led to a knowledge gap with respect to historical issues and conclusions and severely hampered our remediation efforts. These deficiencies represent a material weakness in internal control over financial reporting on the basis that there is more than a remote likelihood that a material misstatement in our interim or annual financial statements due to errors in accounting for income taxes could occur and would not be prevented or detected by our internal control over financial reporting.

### **Changes in Internal Control.**

Our Principal Executive Officer and our Principal Financial Officer have concluded that there have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2009, that have materially affected or is reasonably likely to affect materially, our internal control over financial reporting, except for the item noted below.

Our income tax accounting has significant complexity due to our business being property and equipment intensive, our varied types of refinancing and debt transactions, the significant number of foreign subsidiary legal entities and various tax planning strategies. To address this complexity, on May 27, 2009, we re-hired our former Corporate Tax Director to provide oversight of the domestic, foreign and consolidated income tax responsibilities and on July 6, 2009 a new Manager of Taxation in our Canadian operating unit. Our Corporate Tax Director originally held this position from October 1, 2007 – September 5, 2008. In addition, we utilized third party tax advisors both to assist in the administrative and consolidation duties of preparing the income tax provision and disclosures and also to advise on matters beyond our in-house expertise. We believe that the personnel hired have the appropriate knowledge, experience and skills to implement and maintain the proper controls over accounting for income taxes.

## **Table of Contents**

### **PART II. OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

##### **Legal Proceedings Related to the Chapter 11 Cases**

On March 16, 2009, each of Group, Holding, PTII and IHC filed Chapter 11 Cases in the United States Bankruptcy Court for the District of Delaware for reorganization relief under Chapter 11 of the Bankruptcy Code. Subsequently, the Debtors sought and received an order directing joint administration of the Debtors' Chapter 11 Cases under the caption, In re: Primus Telecommunications Group, Incorporated, et al., Debtors Case No. 09-10867. On April 24, 2009, an unsecured creditors' committee was appointed by the United States Trustee. On April 27, 2009, the Bankruptcy Court approved the use of the Debtors' Disclosure Statement which attached thereto the Plan, to solicit votes for the Plan and set a Plan confirmation hearing date for June 12, 2009. The Plan was confirmed before the Bankruptcy Court on June 12, 2009 and became effective on July 1, 2009. (see Note 1 - Proceedings Under Chapter 11 of The Bankruptcy Code ).

##### **Other Legal Proceedings**

Group and its subsidiaries are subject to claims and legal proceedings unrelated to the Chapter 11 Cases that arise in the ordinary course of its business ( Other Proceedings ). 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 the Other Proceedings will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

#### **ITEM 1A. RISK FACTORS**

A wide range of factors could materially affect our performance. In addition to factors affecting specific business operations and the financial results of those operations identified elsewhere in this report, the following factors, among others, could adversely affect our operations:

##### **BANKRUPTCY RELATED CONSIDERATIONS AND UNCERTAINTIES**

The recent tightening of the global credit markets, deterioration of the global economy and the significant strengthening of the U.S. dollar relative to the local currencies of our major operating units (i.e., units contributing about 80% of our 2009 first two quarters revenues) have produced material uncertainties concerning our future operating results and our ability to improve our liquidity position, to consummate asset sales, to refinance or to extend our debt with 2009 or subsequent near-term maturities, and to raise additional capital, thereby creating increased uncertainty concerning our ability to meet future payment obligations. As a result of these factors and the significant indebtedness of Group, Holding, IHC and PTII, the Plan has been filed for such entities seeking reorganization through the Chapter 11 Cases. The Plan was confirmed before the Bankruptcy Court on June 12, 2009 and became effective on July 1, 2009.

See also information under Note 1 and Note 5 of the Consolidated Condensed Financial Statements presented in Part 1 herein, under Item 2. MD&A Voluntary Reorganization Under Chapter 11, Liquidity and Capital Resources Short- and Long-Term Liquidity Considerations and Risks, and Special Note Regarding Forward Looking Statements, and in these Risk Factors.

*The change of control to be produced by the Reorganization of the Debtors will result in a substantial limitation on or loss of our net operating losses for U.S. federal income tax purposes.*

Our issuance of new common stock, warrants and CVRs through the Reorganization, along with the cancellation of existing equity interests of Group, has caused us to undergo an ownership change upon emergence from Chapter 11. As a result, Section 382 of the U.S. Internal Revenue Code ( IRC ) will limit our

## **Table of Contents**

use of U.S. consolidated net operating losses upon emergence, and our ability to use other carryforwards and tax credits may be limited. The annual limitation imposed by the particular provision of Section 382 of the IRC that we expect to apply to our ownership change generally equals the product of (i) the fair market value of the net equity value of our stock at the time of the ownership change, taking into account the increase in value of the corporation as a result of the surrender or cancellation of creditor's claims in the transaction (rather than the value without taking into account such increases, as is the case under the general rule for non-bankruptcy ownership changes) multiplied by (ii) the long-term tax exempt rate in effect for the month in which the ownership change occurs. The long-term tax-exempt rate is published monthly by the IRS and is intended to reflect current interest rates on long-term tax-exempt debt obligations. Accordingly, under this rule, the Section 382 limitation would generally reflect the increase in the value of our new stock resulting from the conversion of debt to equity in the Chapter 11 Cases. Section 382 of the IRC applies a similar limitation to a capital loss carryforward and tax credits. As a result of our emergence from Chapter 11, our use of our U.S. net operating losses (\$73 million as of December 31, 2008) is expected to be substantially limited or eliminated.

## **RISKS RELATED TO OUR BUSINESS AND INDUSTRY**

***Material strengthening of the United States dollar against foreign currencies reduces the yield in United States dollars generated from payments from our foreign operating subsidiaries and may adversely affect our ability to service our debt.***

Our largest operating subsidiaries generate Canadian and Australian dollars. Payments to United States parent entities from these foreign operating subsidiaries are reduced by the material strengthening of the United States dollar, as the yield in United States dollars is reduced. From June 30, 2008 through December 31, 2008, the Canadian and Australian dollars declined by 17% and 28%, respectively, relative to the United States dollar, and this has had a material adverse impact on amounts of United States dollars transferred to United States parent entities. Conversely, from December 31, 2008 to June 30, 2009 the Canadian and Australian dollars have had a material positive impact. These payments are a substantial source for servicing our significant debt obligations at the United States parent entity levels, as well as a source for making principal payments. Most of our debt is denominated in United States dollars. A reduced yield adversely affects our ability to service or pay off our debt. This, therefore, has a material adverse effect on our ability to service timely our consolidated indebtedness and obligations.

***Our high level of debt and liquidity needs may adversely affect our financial and operating flexibility.***

We currently have substantial indebtedness and anticipate that we and our subsidiaries may incur additional indebtedness in the future in connection with refinancings or the operation or expansion of our business. The recent tightening of global credit markets could also adversely affect our ability to raise needed capital or effect refinancings on acceptable terms or at all. The level and/or terms of our indebtedness (1) could make it difficult for us to make required payments of principal and interest on our outstanding debt as they become due; (2) could limit our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes; (3) require that a substantial portion of our cash flow, if any, be dedicated to the payment of principal and interest on outstanding indebtedness and other obligations and, accordingly, such cash flow will not be available for use in our business; (4) could limit our flexibility in planning for, or reacting to, changes in our business, including demands by some suppliers for more stringent payment terms; (5) result in our being more highly leveraged than many of our competitors, which places us at a competitive disadvantage; (6) will make us more vulnerable in the event of a downturn in our business; (7) could limit our ability to fund our operations due to covenant restrictions; and (8) could result in a default or acceleration or cross-default of indebtedness as a result of the initiation or development of the Reorganization involving us, which we may not be able to bring to an acceptable conclusion for our various stakeholder constituencies.

## **Table of Contents**

***Because a significant portion of our business is conducted outside the United States, fluctuations in foreign currency exchange rates could adversely affect our results of operations.***

A significant portion of our net revenue (about 80% for the six months ended June 30, 2009) is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive a significant portion of our net revenue and incur a significant portion of our operating costs outside the United States, and changes in exchange rates have had and may have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused by fluctuations in the following exchange rates: USD/AUD, USD/CAD, USD/GBP, and USD/EUR. See

Quantitative and Qualitative Disclosures about Market Risk. Due to the large percentage of our operations conducted outside of the United States, strengthening of the USD relative to one or more of the foregoing currencies could have an adverse impact on future results of operations. We historically have not engaged in hedging transactions. However, during the fourth quarter 2007, we completed a forward currency contract required by the Canadian Credit Facility and an interest rate swap. Despite the counterparty to the forward currency and interest rate swap agreement entering bankruptcy in October 2008, management did not believe that breach or event of default had occurred in relation to the Canadian Credit Agreement. As of March 10, 2009, under the Waiver and Amendment Agreement described above, the Lenders under the Canadian Credit Facility waived any such possible breach or event of default. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies. In addition, the operations of affiliates and subsidiaries in foreign countries have been funded with investments and other advances denominated in foreign currencies. Historically, such investments and advances have been long-term in nature, and we accounted for any adjustments resulting from currency translation as a charge or credit to accumulate other comprehensive loss within the stockholders' deficit section of our consolidated balance sheets. In 2002, agreements with certain subsidiaries were put in place for repayment of a portion of the investments and advances made to those subsidiaries. As we anticipate repayment in the foreseeable future of these amounts, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations, and depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on our results of operations.

***Our disclosure controls and procedures and internal control over financial reporting were determined not to be effective as of December 31, 2006, 2007 and 2008, which condition still existed at June 30, 2009, due to the material weakness that existed in our internal control over accounting for income taxes. Our disclosure controls and procedures and internal control over financial reporting may not be effective in future periods as a result of existing or newly identified material weaknesses in internal control over financial reporting.***

In performing an internal control assessment at the end of 2006, our management identified a material weakness in our internal control over financial reporting, which condition still existed at June 30, 2009. A material weakness is a deficiency, or a combination of deficiencies, that adversely affects a company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. For a discussion of the material weakness identified by our management, see Part I, Item 4 herein, and Item 9A. Controls and Procedures of our 2008 Form 10-K. To address the material weakness, we performed additional analysis and other post-closing procedures in order to prepare our consolidated financial statements in accordance with generally accepted accounting principles. The weakness in internal control over accounting for income taxes could be magnified by the complete or substantial loss of net operating losses for U.S. federal income tax purposes through the effectiveness of the plan of reorganization. See Bankruptcy Related Considerations and Uncertainties. These additional procedures were costly, time consuming and required us to dedicate a significant amount of resources, including the time and attention of our senior management, toward the correction of these problems. Performing these additional procedures in the future could cause delays in the filing of our periodic and annual reports to the SEC.

## **Table of Contents**

The potential delay in the filing of our periodic and annual reports could have other adverse effects on our business, including, but not limited to: (1) civil litigation or an investigation by the SEC or other regulatory authorities, which could require us to incur significant legal expenses and other costs or to pay damages, fines or other penalties; (2) covenant defaults, and potentially events of default, under our senior secured credit facilities and the indentures governing our outstanding debt securities, resulting from our failure to file timely our financial statements; (3) negative publicity; and (4) the loss or impairment of investor confidence in our Company.

***Given our limited experience in delivering individual and bundled local, wireless, broadband, DSL, Internet, data and hosting and VOIP services, we may not be able to operate successfully or expand these parts of our business.***

During the third quarter of 2004 we accelerated initiatives to become an integrated wireline, wireless and broadband service provider in order to counter competitive pricing pressures initiated by large incumbent providers in certain of the principal markets where we operate and to stem the loss of certain of our wireline and dial-up ISP customers to our competitors' bundled wireless, wireline and broadband service offerings. Our experience in providing these products in certain markets and in providing these bundled service offerings is limited. Our primary competitors include incumbent telecommunications providers, cable companies and other ISPs that have a significant national or international presence. Many of these operators have substantially greater resources, capital and operational experience than we do. We are experiencing increased competition from traditional telecommunications carriers and cable companies and other new entrants that have expanded into the market for broadband, VOIP, Internet services, data and hosting and traditional voice services, and regulatory developments may impair our ability to compete. Therefore, future operations involving these individual or bundled services may not succeed in the competitive environment, and we may not be able to expand successfully; may experience margin pressure; may face quarterly revenue and operating results variability; may have limited resources to develop and to market the new services; and have heightened difficulty in establishing future revenues or results. As a result, there can be no assurance that we will reverse revenue declines in our legacy services or maintain or increase revenues or be able to generate sufficient income from operations or net income in the future or on any predictable or timely basis.

***We may be exposed to significant liability resulting from our noncompliance with FCC Orders regarding enhanced 911 (E911) services.***

In June 2005, the FCC adopted new rules requiring VOIP providers interconnected to the public switched telephone network to provide E911 service in a manner similar to traditional wireline carriers by November 2005. LINGO, a subsidiary of ours which sells such interconnected VOIP services, was unable, like many interconnected VOIP providers in the industry, to meet this deadline for all of its customers. We sought a waiver from the FCC asking for additional time to complete deploying our E911 service, and the FCC has not yet addressed our waiver petition. As of August 6, 2009, approximately 99% of our LINGO customers were equipped with E911 service as required by the FCC's rules. If and to the extent that we are determined to be out of compliance with the FCC order regarding E911 services we may be subject to fines, penalties, and/or cease and desist orders prohibiting LINGO from providing service on the federal and state levels. However, at this time, management has determined the likelihood of incurring such fines or penalties to be remote.

The FCC rules also required interconnected VOIP providers to distribute stickers and labels informing customers of the emergency service limitations associated with the service, as well as to notify and obtain affirmative acknowledgement from customers that they were aware of all of the emergency service limitations associated with the service. The FCC's Enforcement Bureau released an order providing that the Enforcement Bureau will not pursue enforcement against interconnected VOIP providers that have received affirmative acknowledgement from at least 90% of their subscribers. We have received affirmative acknowledgement from substantially all of our customers and have effectively satisfied this requirement of the rule. LINGO's current services are more limited than the 911 services offered by traditional wireline telephone companies. These

## **Table of Contents**

limitations may cause significant delays, or even failures, in callers' receipt of the emergency assistance. Despite the fact that we have notified our customers and received affirmative acknowledgement from substantially all of our customers that they understand the differences between the access we provide to emergency services as compared to those available through traditional wireline telephony providers, affected parties may attempt to hold us responsible for any loss, damage, personal injury or death suffered as a result of certain failures to comply with the FCC mandated E911 service for interconnected VOIP providers. Our resulting liability could be significant.

On June 1, 2007, the FCC released a Notice of Proposed Rulemaking Proceeding considering the imposition of additional VOIP E911 obligations on interconnected VOIP providers, like us. Specifically, the Commission is considering requiring interconnected VOIP providers to determine automatically the physical location of their customer rather than allowing customers to manually register their location. Moreover, the Notice includes a tentative conclusion that all interconnected VOIP service providers that allow customers to use their service in more than one location (nomadic VOIP service providers such as us) must utilize automatic location technology that meets the same accuracy standards applicable to providers of mobile phone service providers. At this time, we are unable to predict the outcome of this proceeding or its impact on us.

On July 23, 2008, President Bush signed into law the New and Emerging Technologies 911 Improvement Act of 2008. Prior to enactment, interconnected VOIP providers, like us, did not have the same liability protection as wireline or wireless providers that offer emergency 911 calling services. The new law provides public safety entities, interconnected VOIP providers and others involved in handling 911 calls the same liability protections when handling 911 calls from interconnected VOIP users as from mobile or wired telephone service users. The applicability of the liability protection to 911 calling services that do not conform to the FCC's rules is unclear at this time. Additionally, any liability associated with 911 call placement and handling prior to the enactment of this new law would not be covered but we are currently unaware of any such liability.

### ***The FCC has extended CPNI rules to interconnected VOIP providers, which could limit our marketing efforts.***

On April 2, 2007, the FCC extended customer proprietary network information, or CPNI, rules to interconnected VOIP providers, like us. CPNI includes information that appears on customers' bills such as called telephone numbers, the frequency, duration, time and length of calls; and any services or features purchased by the consumer, like caller ID. Pursuant to the CPNI rules, interconnected VOIP providers may not use CPNI without obtaining customer consent except in limited circumstances. Moreover, interconnected VOIP providers are required to adhere to a particular customer approval processes when using CPNI outside of pre-defined limits. Effective December 8, 2007, we were required to adhere to specific CPNI rules when using CPNI for marketing purposes. Accordingly, we had to implement internal processes in order to comply with the FCC's CPNI rules. As required by the new rules, certifications were filed with the FCC regulating our compliance efforts in this regard.

### ***We may be exposed to liability resulting from FCC Orders regarding access for people with disabilities.***

On June 15, 2007, the FCC applied the disability access requirements of Sections 225 and 255 of the Communications Act to providers of interconnected VOIP services, like us, and to equipment manufacturers that make equipment to use with those services. Section 255 of the Communications Act requires, if readily achievable, service providers to ensure that its equipment and service is accessible to and usable by individuals with disabilities. Where readily achievable, the relevant regulations also require service providers to ensure that information and documentation provided in connection with equipment or services be accessible to people with disabilities and that employee training account for accessibility requirements. In addition, the FCC said that interconnected VOIP providers were subject to the requirements of Section 225, including contributing to the Telecommunications Relay Services, or TRS, fund and that they must offer 711 abbreviated dialing for access to relay services. At this time, we are not in compliance with these rules. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties.

## **Table of Contents**

***Our results of operations may be adversely affected or our retail prices may rise due to increased regulation or the imposition of additional regulatory taxes, fees and surcharges.***

On August 6, 2007, the FCC released a Report and Order regarding the collection of regulatory fees for Fiscal Year 2007 ( Fees Order ). Pursuant to the Fees Order, the FCC mandated the collection of such fees from interconnected VOIP service providers like us. The Fees Order mandates that interconnected VOIP providers pay regulatory fees based on reported interstate and international revenues. The Fees Order became effective in mid-November 2007. The assessment of regulatory fees to our service will increase our costs or cause us to increase the price of our retail service offerings and may have an adverse impact on our profitability.

We cannot predict the impact of any future laws, regulations and orders adopted either domestically or abroad on our operations and services. But increased regulation and the imposition of additional taxes, fees and surcharges increases the costs associated with providing our service and such taxes, fees and surcharges may or may not be recoverable from our customers. If we choose to absorb such costs, our profit margins would likely decrease. Moreover, even if such costs are recoverable or if we choose to maintain profitability, we may need to increase the retail price of our service that could result in making our service less competitive both with other providers of interconnected VOIP service providers and traditional providers of telecommunications services. The net effect could reduce the number of our subscribers, our revenue and our profit margin.

***The rates we pay to underlying telecommunications carriers may increase which may reduce our profitability or increase the retail price of our service.***

The FCC is considering reform of the methodology that regulated carriers use to determine the appropriate payments for the exchange of traffic that is necessary to complete telephone calls to the traditional telephone network. The FCC could adopt an order where interconnected VoIP providers, like us, are subject to increased rates when regulated carriers receive our traffic. In the event that the FCC adopts such an order, the rates we pay to regulated carriers to access the traditional telephone network could increase that may result in us increasing the retail price of our service, which may make us less competitive in the communications marketplace, or reduce our profitability. We cannot predict the outcome of this proceeding.

***The FCC has adopted new rules that will require us to transfer telephone numbers in a shorter timeframe which could reduce our profitability or increase the retail price of our service and if we cannot comply we may be subject to enforcement actions.***

Earlier in 2009, the Commission released another order that reduces the amount of time that interconnected VoIP providers, like us, and regulated telecommunications carrier have to transfer a telephone number to a new provider either when obtaining a new customer or losing a customer to another communications provider. While the order is current effective, the rules will not become applicable to us until at least March, 2010. In order to comply with the FCC's new rules, we will likely have to implement new procedures and we may have to increase staffing levels. Should this occur we may need to increase the price of our retail service offering, that may make us less competitive with other providers of communications services, or we may experience reduced profitability. Should we not be able to comply with the order we may be subject to fines, penalties, or cease and desist orders. At this time, we cannot accurately predict the full impact of this order on our business as the industry is still developing the technical standards that will govern the new expedited number transfer procedures.

***The FCC may adopt a new contribution methodology for federal universal service fund that may reduce our profitability or increase the price consumers pay for our service.***

AT&T filed a Petition for Immediate Commission Action on July 10, 2009, requesting that the FCC adopt a new mechanism for calculating federal universal service fund contribution that would be applicable to all contributors, including us. The proposal is that contributors use assessable telephone numbers as the basis for determining their contribution obligation rather than interstate and international revenues. We cannot predict whether the FCC will adopt this or some other contribution methodology nor can we predict the potential impact

## **Table of Contents**

on our business at this time. But should a revised contribution increase our contribution obligation we may need to either raise the total amount of our consumers bills, potentially making us less competitive with other providers of communications services, or reduce our profit margins.

### ***The FCC may allow states to subject our service to state universal service fund obligations.***

Currently, three states attempt to require nomadic interconnected VoIP providers, like us, to contribute to state universal service funds. One state, Nebraska, engaged in litigation with a provider of interconnected VoIP services similar to ours. The U.S. District Court for Nebraska issued a preliminary injunction on March 3, 2008, finding that the Nebraska Public Service Commission did not have jurisdiction to require universal service fund contributions from nomadic interconnected VoIP providers. A panel of the U.S. Circuit Court of Appeals for the Eighth Circuit affirmed the U.S. District court ruling on May 1, 2009. Subsequently, the Nebraska Public Service Commission requested a rehearing that the Court denied on June 5, 2009. On the basis of this litigation, we do not believe that existing law allows states to subject us to state universal service fund contribution obligations.

On July 16, 2009, Kansas and Nebraska filed petition with the FCC requesting a declaratory ruling that states are not preempted from requiring nomadic interconnected VoIP providers to contribute to state universal service funds. The petition also seeks a retroactive ruling finding that states have been able to collect such contributions for a time period that is not clearly defined in the petition. At this time, we cannot predict the outcome of this proceeding nor its impact on our business. If we become subject to 50 state universal service fund contributions, we will either have to raise the cost of our service or we will have to reduce our profit margins. The retroactive element of the petition is not clearly defined by the joint petitioners so we cannot assess its potential impact on our business at this time. However if the FCC limits the rulings to Kansas and Nebraska, we do not believe our potential liability is material.

### ***The applicability of taxes to our services will increase the cost of our services to consumers decreasing our competitive price advantage and we may be subject to liabilities for past taxes, surcharges, fees, penalties and interest.***

We currently do not collect or remit state or municipal taxes, fees or surcharges on the retail charges we collect from our customers, except where we have determined we are required to based on tax law. In some jurisdictions we also did not collect and remit 9-1-1 surcharges. In some instances, we have received inquiries or demands from state and municipalities for taxes, fees or surcharges, including, in some instances, 9-1-1 fees. Depending on the state, statute or municipal code, we have maintained that these taxes, fees, or surcharges, including 9-1-1 fees, do not apply to us but recent changes in the law, at the federal, state and local level, may change our legal obligations. Accordingly, some taxes, fees or surcharges, including 9-1-1 fees, could apply to us retroactively and we could also be subject to penalties and interest.

### ***We are substantially smaller than our major competitors, whose marketing and pricing decisions, and relative size advantage, could adversely affect our ability to attract and to retain customers and are likely to continue to cause significant pricing pressures that could adversely affect our net revenues, results of operations and financial condition.***

The long distance telecommunications, Internet, broadband, DSL, data and hosting and wireless industry is significantly influenced by the marketing and pricing decisions of the larger long distance, Internet access, broadband, DSL, data and hosting and wireless business participants. Prices in the long distance industry have continued to decline in recent years, and as competition continues to increase within each of our service segments and each of our product lines, we believe that prices are likely to continue to decrease. Competitors in our core markets include, among others: AT&T, Verizon, the regional bell operating companies (RBOCs), cable companies and the major wireless carriers in the United States; Telstra, SingTel Optus and Telecom New Zealand in Australia; Telus, BCE, Allstream (formerly AT&T Canada) and the major wireless and cable companies in Canada; and BT, Cable & Wireless United Kingdom, Colt Telecom, Energis and the major wireless carriers in the United Kingdom. Customers frequently change long distance, wireless, broadband providers, and

## **Table of Contents**

ISPs in response to the offering of lower rates or promotional incentives, increasingly as a result of bundling of various services by competitors. Moreover, competitors' VOIP and broadband product rollouts have added further customer choice and pricing pressure. As a result, generally, customers can switch carriers and service offerings at any time. Competition in all of our markets is likely to remain intense, or even increase in intensity and, as deregulatory influences are experienced in markets outside the United States, competition in non-United States markets is becoming similar to the intense competition in the United States. Many of our competitors are significantly larger than us and have substantially greater financial, technical and marketing resources, larger networks, a broader portfolio of service offerings, greater control over network and transmission lines, stronger name recognition and customer loyalty, long-standing relationships with our target customers, and lower debt leverage ratios. As a result, our ability to attract and retain customers may be adversely affected. Many of our competitors enjoy economies of scale that result in low cost structures for transmission and related costs that could cause significant pricing pressures within the industry. Several long distance carriers in the United States, Canada and Australia and the major wireless carriers and cable companies have introduced pricing and product bundling strategies that provide for fixed, low rates for calls. This strategy of our competitors could have a material adverse effect on our net revenue per minute, results of operations and financial condition if our pricing, set to remain competitive, is not offset by similar declines in our costs. Companies emerging out of bankruptcy might benefit from a lower cost structure and might apply pricing pressure within the industry to gain market share. We compete on the basis of price, particularly with respect to our sales to other carriers, and also on the basis of customer service and our ability to provide a variety of telecommunications products and services. If such price pressures and bundling strategies intensify, we may not be able to compete successfully in the future, may face quarterly revenue and operating results variability, and may have heightened difficulty in estimating future revenues or results.

***Our repositioning in the marketplace places a significant strain on our resources, and if not managed effectively, could result in operational inefficiencies and other difficulties.***

Our repositioning in the marketplace may place a significant strain on our management, operational and financial resources, and increase demand on our systems and controls. To manage this change effectively, we must continue to implement and improve our operational and financial systems and controls, invest in critical network infrastructure to maintain or improve our service quality levels, purchase and utilize other transmission facilities, and train and manage our employee base. If we inaccurately forecast the movement of traffic onto our network, we could have insufficient or excessive transmission facilities and disproportionate fixed expenses. As we proceed with our development, operational difficulties could arise from additional demand placed on customer provisioning and support, billing and management information systems, product delivery and fulfillment, on our support, sales and marketing and administrative resources and on our network infrastructure, maintenance and upgrading. For instance, we may encounter delays or cost-overruns or suffer other adverse consequences in implementing new systems when required, such as our off-shoring certain functions. In addition, our operating and financial control systems and infrastructure could be inadequate to ensure timely and accurate financial reporting, which could impact debt covenant compliance as well.

***We have experienced significant historical, and may experience significant future, operating losses and net losses which may hinder our ability to meet our debt service or working capital requirements.***

As of June 30, 2009, we had an accumulated deficit of \$(1,060.5) million. We incurred net losses of \$(10.6) million in 2004, \$(149.2) million in 2005, \$(238.0) million in 2006 and \$(25.0) million in 2008. During the year ended December 31, 2007, we recognized net income of \$15.7 million, of which \$32.7 million was related to the positive impact of foreign currency transaction gains. Even with the successful reduction in indebtedness through the Plan, future losses may continue. Moreover, it is possible that adverse customer or supplier reaction to our Reorganization may have an adverse effect on our results of operations in future periods than any interest expense reduction associated with such Reorganization. We cannot assure that we will recognize net income in future periods. If we cannot generate net income or sufficient operating profitability, we may not be able to meet our debt service or working capital requirements.

## **Table of Contents**

***We experience intense domestic and international competition which may adversely affect our results of operations, financial condition, and cash flows.***

The local and long distance telecommunications, data, broadband, Internet, VOIP, data and hosting and wireless industries are intensely competitive with relatively limited barriers to entry in the more deregulated countries in which we operate and with numerous entities competing for the same customers. Recent and pending deregulation in various countries may encourage new entrants to compete, including ISPs, wireless companies, cable television companies, who would offer voice, broadband, Internet access and television, and electric power utilities who would offer voice and broadband Internet access. For example, the United States and many other countries have committed to open their telecommunications markets to competition pursuant to an agreement under the World Trade Organization which began on January 1, 1998. Further, in the United States, as certain conditions have been met under the Telecommunications Act of 1996, the RBOCs have been allowed to enter the long distance market, and other long distance carriers have been allowed to enter the local telephone services market (although judicial and regulatory developments have diminished the attractiveness of this opportunity), and many entities, including cable television companies and utilities, have been allowed to enter both the local service and long distance telecommunications markets.

***A deterioration in our relationships with facilities-based carriers could have a material adverse effect upon our business.***

We primarily connect our customers' telephone calls and data/Internet needs through transmission lines that we lease under a variety of arrangements with other facilities-based long distance carriers. Many of these carriers are, or may become, our competitors. Our ability to maintain and expand our business depends on our ability to maintain favorable relationships with the facilities-based carriers from which we lease transmission lines. If our relationship with one or more of these carriers were to deteriorate or terminate, for a variety of reasons including but not limited to our reorganization under the Plan, it could have a material adverse effect upon our cost structure, service quality, network diversity, results of operations, financial condition, and cash flows.

***Uncertainties and risks associated with international markets and regulatory requirements could adversely impact our international operations.***

We have significant international operations and, for the six months ended June 30, 2009, derived about 80% of our net revenues by providing services outside of the United States. In international markets, we are smaller than the principal or incumbent telecommunications carrier that operates in each of the foreign jurisdictions where we operate. In these markets, incumbent carriers are likely to control access to, and pricing of, the local networks; enjoy better brand recognition and brand and customer loyalty; generally offer a wider range of product and services; and have significant operational economies of scale, including a larger backbone network and more correspondent agreements. Moreover, the incumbent carrier may take many months to allow competitors, including us, to interconnect to our switches within our territory, and we are dependent upon their cooperation in migrating customers onto our network. There can be no assurance that we will be able to obtain the permits and operating licenses required for us to operate; obtain access to local transmission facilities on economically acceptable terms; or market services in international markets.

In addition, operating in international markets generally involves additional risks, including unexpected changes or uncertainties in regulatory requirements, taxes, tariffs, customs and duties. Given the nature of our operations and uncertainties in, or the absence of definitive regulations or interpretations concerning, the taxation of (including value added tax of) certain aspects of our business in certain international jurisdictions in which we conduct (or may be construed by such authorities as conducting or deriving taxable) operations or revenue, we may become subject to assessments for taxes (which may include penalties and interest) which are either unexpected and/or have not been accrued for in our historical results of operations. This circumstance occurred during March 2008, when we concluded it was probable that assessments would be forthcoming concerning past European prepaid calling services operations (see Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations; Results of operations for the year ended December 31, 2007 as compared to the year ended December 31, 2006), and it is possible that tax uncertainties

## **Table of Contents**

concerning our international operations could arise in the future. Such developments, in addition to the foregoing, could have adverse consequences that could result in restatement of prior period results of operations and unanticipated liquidity demands. Additional operating risks and uncertainties in operating in international markets include trade barriers, difficulties in staffing and managing foreign operations, problems in collecting accounts receivable, political risks, fluctuations in currency exchange rates, restrictions associated with the repatriation of funds, technology export and import restrictions, and seasonal reductions in business activity. Our ability to operate and grow our international operations successfully could be adversely impacted by these risks and uncertainties particularly in light of the fact that we derive such a large percentage of our revenues from outside of the United States.

***The telecommunications industry is rapidly changing, and if we are not able to adjust our strategy and resources effectively in the future to meet changing market conditions, we may not be able to compete effectively.***

The telecommunications industry is changing rapidly due to deregulation, privatization, consolidation, technological improvements, availability of alternative services such as wireless, broadband, DSL, Internet, VOIP, data and hosting and wireless DSL through use of the fixed wireless spectrum, and the globalization of the world's economies. In addition, alternative services to traditional fixed wireline services, such as wireless, broadband, Internet and VOIP services, are a substantial competitive threat. If we do not adjust to meet changing market conditions including if we do not have adequate resources to do so, we may not be able to compete effectively. The telecommunications industry is marked by the introduction of new product and service offerings and technological improvements. Achieving successful financial results will depend on our ability to anticipate, assess and adapt to rapid technological changes, and offer, on a timely and cost-effective basis, services including the bundling of multiple services that meet evolving industry standards. If we do not anticipate, assess or adapt to such technological changes at a competitive price, maintain competitive services or obtain new technologies on a timely basis or on satisfactory terms, our financial results may be materially and adversely affected.

The rapid enhancement of VOIP technology may result in increasing levels of traditional domestic and international voice long distance traffic being transmitted over the Internet, as opposed to traditional telecommunication networks. Currently, there are significant capital investment savings and cost savings associated with carrying voice traffic employing VOIP technology, as compared to carrying calls over traditional networks. Thus, there exists the possibility that the price of traditional long distance voice services will decrease in order to be competitive with VOIP. Additionally, competition is expected to be intense to switch customers to VOIP product offerings, as is evidenced by numerous recent market announcements in the United States and internationally from industry leaders and competitive carriers concerning significant VOIP initiatives. Our ability effectively to retain our existing customer base and generate new customers, either through our traditional network or our own VOIP offerings, may be adversely affected by accelerated competition arising as a result of VOIP initiatives, as well as regulatory developments that may impede our ability to compete, such as restrictions on access to broadband networks owned and operated by others and the requirements to provide E911 services. As competition intensifies as a result of deregulatory, market or technological developments, our results of operations and financial condition could be adversely affected.

***If we are not able to operate a cost-effective network, we may not be able to grow our business successfully.***

Our long-term success depends on our ability to design, implement, operate, manage, maintain and upgrade a reliable and cost-effective network. In addition, we rely on third parties to enable us to expand and manage our global network and to provide local, broadband Internet, data and hosting and wireless services. If we fail to generate additional traffic on our network, if we experience technical or logistical impediments to our ability to develop necessary network or to migrate traffic and customers onto our network, or if we experience difficulties with our third-party providers, we may not achieve desired economies of scale or otherwise be successful in growing our business.

## **Table of Contents**

***If we are not able to use and protect intellectual property domestically and internationally, it could have a material adverse effect on our business.***

Our ability to compete depends, in part, on our ability to use intellectual property in the United States and internationally. We rely on a combination of trade secrets, trademarks and licenses to protect our intellectual property. We are also subject to the risks of claims and litigation alleging infringement of the intellectual property rights of others. The telecommunications industry is subject to frequent litigation regarding patent and other intellectual property rights. We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently used by us or other technology that we may seek to license in the future will be available to us on commercially reasonable terms or at all. Although our existing intellectual property are on standard commercial terms made generally available by the companies providing the licenses and, individually, their costs and terms are not material to our business, the loss of, or our inability to maintain existing licenses, could result in shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated and could cause service disruption to our customers. Such delays or reductions in the aggregate could harm our business. We also generally rely on indemnification provisions in licensing contracts to protect against claims of infringement regarding the licensed technology, which indemnification could be affected by, among other things, the financial strength of the licensor.

***The loss of key personnel could have a material adverse effect on our business.***

The loss of the services of K. Paul Singh, our Chairman and Chief Executive Officer, or the services of our other key personnel, or our inability to attract and retain additional key management, technical and sales personnel, could have a material adverse effect upon us.

***We are subject to potential adverse effects of regulation which may have a material adverse impact on our competitive position, growth and financial performance.***

Our operations are subject to constantly changing regulation. There can be no assurance that future regulatory changes will not have a material adverse effect on us, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations, any of which could have a material adverse effect upon us. As a multinational telecommunications company, we are subject to varying degrees of regulation in each of the jurisdictions in which we provide our services. Local laws and regulations, and the interpretation of such laws and regulations, differ significantly among the jurisdictions in which we operate. Enforcement and interpretations of these laws and regulations can be unpredictable and are often subject to the informal views of government officials. Potential future regulatory, judicial, legislative, and government policy changes in jurisdictions where we operate could have a material adverse effect on us. Domestic or international regulators or third parties may raise material issues with regard to our compliance or noncompliance with applicable regulations, and therefore may have a material adverse impact on our competitive position, growth and financial performance. Regulatory considerations that affect or limit our business include (1) United States common carrier requirements not to discriminate unreasonably among customers and to charge just and reasonable rates; (2) general uncertainty regarding the future regulatory classification of and taxation of VOIP telephony, the need to provide emergency calling services in a manner required by the FCC that is not yet available commercially on a nation-wide basis and the ability to access broadband networks owned and operated by others; as regulators decide that VOIP is a regulated telecommunications service, our VOIP services may be subject to burdensome regulatory requirements and fees, we may be obligated to pay carriers additional interconnection fees and operating costs may increase; (3) general changes at the federal and/or state levels affecting access charges, universal service fund fees and regulatory fee payments would affect our cost of providing services; (4) ongoing regulatory proceedings regarding efforts by Telstra in Australia to increase prices and charges and to deny access to essential facilities; (5) the ultimate outcome of the process launched by the Australian government to help fund the construction of a new national broadband network, including whether and the terms upon which (a) we will have access to such network, and (b) the duration upon which the copper

## **Table of Contents**

wire based last mile infrastructure needed by us to furnish broadband services using our DSLAM network infrastructure will be continued; (6) general changes in access charges and contribution payments could adversely affect our cost of providing long distance, wireless, broadband, VOIP, local and other services; and (7) regulatory proceedings in Canada determining whether and the extent to which regulation should mandate access to networks and interconnection including intra-exchange transport services which we use to interconnect our DSLAM collocation sites and high speed access to business services. Any adverse developments implicating the foregoing could materially adversely affect our business, financial condition, result of operations and prospects.

*Natural disasters may affect the markets in which we operate, our operations and our profitability.*

Many of the geographic areas where we conduct our business may be affected by natural disasters, including hurricanes and tropical storms. Hurricanes, tropical storms and other natural disasters could have a material adverse effect on the business by damaging the network facilities or curtailing voice or data traffic as a result of the effects of such events, such as destruction of homes and businesses.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In connection with consummation of the Plan, we issued equity securities that are described under Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations; Voluntary Reorganization Under Chapter 11, and such description is incorporated herein by reference. Such securities were issued without registration under the Securities Act of 1933 pursuant to an exemption from registration contained in Section 1145 of the Bankruptcy Code, on the basis that such securities were issued principally in exchange for claims in the Chapter 11 Cases.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

(a) Exhibits (see index)

**Table of Contents**

**SIGNATURES**

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

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Date: February 1, 2010

By:                               /s/   THOMAS R. KLOSTER  
                                          **Thomas R. Kloster**  
                                          **Chief Financial Officer (Principal Financial Officer)**

**Table of Contents**

**EXHIBIT INDEX**

**Exhibit**

| <b>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1*          | Joint Plan of Reorganization of Primus Telecommunications Group, Incorporated and its Affiliate Debtors, as filed by the Debtors with the Bankruptcy Court on June 12, 2009.                                                                                                                                                                                                                                                                                                      |
| 3.1**         | Second Amended and Restated Certificate of Incorporation of Primus Telecommunications Group, Incorporated                                                                                                                                                                                                                                                                                                                                                                         |
| 3.2**         | Amended and Restated By-Laws of Primus Telecommunications Group, Incorporated                                                                                                                                                                                                                                                                                                                                                                                                     |
| 4.1***        | Class A Warrant Agreement, dated as of July 1, 2009, by and between Primus Telecommunications Group, Incorporated and StockTrans, Inc., as Warrant Agent                                                                                                                                                                                                                                                                                                                          |
| 4.2***        | Class B Warrant Agreement, dated as of July 1, 2009, by and between Primus Telecommunications Group, Incorporated and StockTrans, Inc., as Warrant Agent                                                                                                                                                                                                                                                                                                                          |
| 4.3***        | Contingent Value Rights Distribution Agreement of Primus Telecommunications Group, Incorporated                                                                                                                                                                                                                                                                                                                                                                                   |
| 10.1***       | Supplemental Indenture, dated as of July 1, 2009, by and among Primus Telecommunications IHC, Inc., the Guarantors thereto and U.S. Bank National Association, as Trustee                                                                                                                                                                                                                                                                                                         |
| 10.2***       | First Amendment, dated as of July 1, 2009, to Intercreditor Agreement, dated as of February 26, 2007, by and among Primus Telecommunications IHC, Inc., Primus Telecommunications Group, Incorporated, Primus Telecommunications Holding, Inc., U.S. Bank National Association and The Bank of New York Mellon                                                                                                                                                                    |
| 10.3***       | First Amendment, dated as of July 1, 2009, to Collateral Agreement, dated as of February 26, 2007, by and among Primus Telecommunications IHC, Inc., U.S. Bank National Association and the Grantors party thereto                                                                                                                                                                                                                                                                |
| 10.4***       | Assumption Agreement, dated as of July 1, 2009, by Primus Telecommunications Group, Incorporated and Primus Telecommunications Holding, Inc., in favor of U.S. Bank National Association, as collateral agent under the Collateral Agreement, dated as of February 26, 2007, by and among Primus Telecommunications IHC, Inc., U.S. Bank National Association and the other Grantors party thereto                                                                                |
| 10.5***       | Third Amendment, dated as of July 1, 2009, to the Term Loan Agreement, dated as of February 18, 2005, among Primus Telecommunications Group Incorporated, Primus Telecommunications Holding, Inc., the several banks and other financial institutions or entities from time to time parties thereto, Lehman Commercial Paper, Inc., acting through one or more of its branches as the Administrative Agent and The Bank of New York Mellon, as the successor Administrative Agent |
| 10.6***       | Separation Agreement by and between John F. DePodesta and Primus Telecommunications Group, Incorporated, dated as of July 1, 2009                                                                                                                                                                                                                                                                                                                                                 |
| 10.7***       | Separation Agreement by and between Thomas R. Kloster and Primus Telecommunications, Inc., dated as of July 1, 2009                                                                                                                                                                                                                                                                                                                                                               |
| 10.8***       | Primus Telecommunications Group, Incorporated Management Compensation Plan                                                                                                                                                                                                                                                                                                                                                                                                        |
| 10.9***       | Form of Restricted Stock Unit Agreement between Grantee and Primus Telecommunications Group, Incorporated, dated as of July 1, 2009                                                                                                                                                                                                                                                                                                                                               |
| 10.10***      | Form of Nonqualified Stock Option Agreement between Grantee and Primus Telecommunications Group, Incorporated, dated as of July 1, 2009                                                                                                                                                                                                                                                                                                                                           |
| 10.11***      | Form of Performance Nonqualified Stock Option Agreement between Grantee and Primus Telecommunications Group, Incorporated, dated as of July 1, 2009                                                                                                                                                                                                                                                                                                                               |

## **Table of Contents**

### **Exhibit**

| <b>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                               |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.12****     | Waiver and Amendment Agreement, dated March 10, 2009, to Senior Secured Credit Agreement dated as of March 27, 2007, as amended among Primus Telecommunications Canada, Inc. as Borrower, 3082833 Nova Scotia Company, as an Obligor, Guggenheim Corporate Funding, LLC, as administrative agent and collateral agent, and the Lenders from time to time parties thereto.        |
| 31*****       | Certifications.                                                                                                                                                                                                                                                                                                                                                                  |
| 32*****       | Certification.                                                                                                                                                                                                                                                                                                                                                                   |
| *             | Incorporated by reference to the Registrant's Form 8-K, filed with the Commission on June 15, 2009.                                                                                                                                                                                                                                                                              |
| **            | Incorporated by reference to the Registrant's Registration Statement on Form 8-A, filed with the Commission on July 1, 2009.                                                                                                                                                                                                                                                     |
| ***           | Incorporated by reference to the Registrant's Form 8-K, filed with the Commission on July 1, 2009.                                                                                                                                                                                                                                                                               |
| ****          | Incorporated by reference to the Registrant's Form 8-K, filed with the Commission on March 16, 2009.                                                                                                                                                                                                                                                                             |
| *****         | Previously filed.                                                                                                                                                                                                                                                                                                                                                                |
| *****         | This certification is being furnished and will not be deemed filed for purposes of Section 18 of the Securities Exchange Act (15 U.S.C. 78r) and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference. |